

Mason County Eastern School District

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2021



Mason County Eastern School District

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Mason County Eastern School District
Custer, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mason County Eastern School District (the School District), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Board of Education
Mason County Eastern School District
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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mason County Eastern School District as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As described in Note L to the financial statements, Mason County Eastern School District implemented Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, budgetary comparison information, and pension and OPEB information on pages 3 through 9 and 38 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2021, on our consideration of Mason County Eastern School District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Mason County Eastern School District’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mason County Eastern School District’s internal control over financial reporting and compliance.



Hart, Michigan
September 15, 2021

Mason County Eastern School District

Management's Discussion and Analysis

This section of Mason County Eastern School District's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2021. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Mason County Eastern Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term, as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund, the General Fund, as well as the Sinking Fund, with all other funds presented in one column as other governmental funds.

Overview of the Financial Statements

This annual report consists of four parts: (1) management's discussion and analysis (this section), (2) the auditors' opinion, (3) the basic financial statements and (4) the required supplementary information. The financial statements include notes that explain some of the information in the statements by providing detailed data. These statements are followed by a section of required supplementary information that further explains and supports the financial statements, utilizing a comparison to the District's budget for the year. Additionally, the basic financial statements also include two kinds of statements that present different views of the district.

Reporting the School District as a Whole – District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the School District's financial statements, report information about the School District as a whole and its activities in a way that help you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The footnotes to the financial statements contain the details.

Mason County Eastern School District

Management's Discussion and Analysis (Continued)

These two statements report the School District's Net Position – the difference between assets, deferred inflows and outflows, and liabilities, as reported in the Statement of Net Position – as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's Net Position – as reported in the Statement of Activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Position and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, student/school activities and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The District-Wide beginning net position and Fund Financial Statement beginning fund balance were restated for the effects of including the student activity beginning fund balance in the special revenue funds as required by GASB 84. The footnotes to the financial statements contain the details. The prior year Statement of Activities was not restated for the effect of GASB Statement 84 as the data is not available.

Reporting the School District's Most Significant Funds – Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds -- not the School District as a whole. Some funds are required to be established by State law and by bond covenants. The School District may also establish other funds to help it control and manage money for particular purpose -- the Food Service fund is an example.

Governmental Funds

All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation schedule.

Mason County Eastern School District

Management's Discussion and Analysis (Continued)

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's Net Position as of June 30, 2021 and 2020.

TABLE 1	Governmental Activities <u>June 30, 2021</u>	Governmental Activities <u>June 30, 2020</u>
Assets and Deferred Outflows		
Current assets	\$ 3,753,813	\$ 2,789,311
Noncurrent assets	3,803,489	3,859,892
Deferred outflows	<u>2,139,579</u>	<u>2,633,997</u>
Total assets and deferred outflows	9,696,881	9,283,200
Liabilities and Deferred inflows		
Current liabilities	512,988	473,180
Long-term liabilities	8,763,463	9,210,764
Deferred inflows	<u>1,701,941</u>	<u>1,578,824</u>
Total liabilities and deferred inflows	<u>10,978,392</u>	<u>11,262,768</u>
Net Position		
Net investment in capital assets	3,803,489	3,859,892
Restricted	613,243	423,119
Unrestricted	<u>(5,698,243)</u>	<u>(6,262,579)</u>
Total Net Position	<u>\$ (1,281,511)</u>	<u>\$ (1,979,568)</u>

The School District's net position was a deficit of \$1,281,511 as of June 30, 2021 (see Table 1). Net investment in capital assets, totaling \$3,803,489 compares the original cost (less depreciation) of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Restricted net position of \$613,243 is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that portion of net position for day-to-day operations. The remaining amount of net position, \$(5,698,243) is unrestricted.

Mason County Eastern School District

Management's Discussion and Analysis (Continued)

The \$(5,698,243) of unrestricted net position of governmental activities represents the accumulated results of all past years' operations. A positive unrestricted net position balance is used to provide working capital and cash flow requirements as well as providing for future uncertainties. A negative unrestricted net position balance means spending must be reduced and/or revenues increased. The operating results will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net position for fiscal years 2021 and 2020.

TABLE 2

	Governmental Activities <u>June 30, 2021</u>	Governmental Activities <u>June 30, 2020</u>
Revenue		
Program revenue:		
Charges for services	\$ 32,817	\$ 39,554
Operating grants/contributions	1,892,474	1,422,671
General revenue:		
Property taxes	2,053,451	1,966,553
State foundation allowance	1,571,324	1,632,037
Other	<u>47,720</u>	<u>54,250</u>
Total revenue	5,597,786	5,115,065
Function/Program Expenditures		
Instruction	\$ 2,902,889	\$ 3,276,456
Support services	1,638,938	1,416,154
Community services	722	1,402
Food services	331,563	313,112
Student/school activities	40,346	-
Athletics	<u>111,736</u>	<u>79,434</u>
Total expenses	<u>5,026,194</u>	<u>5,086,558</u>
Increase (decrease) in Net Position	<u>\$ 571,592</u>	<u>\$ 28,507</u>

Mason County Eastern School District

Management's Discussion and Analysis (Continued)

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$5,026,194. Certain activities were partially funded by those who benefited from the programs in the amount of \$32,817 or by other governments and organizations that subsidized certain programs with grants and contributions in the amount of \$1,892,474. We paid for the remaining "public benefit" portion of our governmental activities with \$2,053,451 in property taxes, \$1,571,324 in State source revenue and \$47,720 received in other revenues, such as interest and general entitlements.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$3,249,925, which is an increase of \$797,729 from the \$2,452,196 reported in the prior year, as restated.

The General Fund fund balance is available to fund costs related to allowable school operating purposes.

The other governmental funds, consists of the food service and a capital project fund, with fund balances of \$160,695, and \$123,349, respectively. Capital project fund and food service fund balances are restricted since they can only be used for building and site improvements and for the food service program, respectively. The School District also \$124,084 of fund balance committed for student activities

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information section of these financial statements.

General Fund revenues were originally budgeted at \$3,846,808, ending with a final budget of \$5,081,596. This increase was from increased state and federal revenues from COVID related grants, 11D SAF, 22B Discretionary, 147A MPSERS Cost Offset, 31A At Risk, GSRP Reimbursement, Title I, and Title II. Actual revenues for the year were \$4,934,973, a difference from the final budget of \$146,623 for a 2.9% variance.

Mason County Eastern School District

Management's Discussion and Analysis (Continued)

Our local revenues were actually lower than the final amended budget due to the revenue received for the health center being deferred because the expenditures will not be incurred until the 2021-22 fiscal year.

Our state revenues came in lower than the final budgeted amount. While we realized increases in a MPSERS forfeiture credit and a 147 MPSERS Cost Offset, our GSRP reimbursement was lower than the final amended budget due to expenditures not being incurred until the 2021-22 fiscal year.

There were Title IIA funds and GEER funds that were not spent during this fiscal year, which accounted for the decrease in both federal revenues and corresponding professional development activities that didn't occur because of COVID, as well as custodial services expenditures. These federal grant funds will be carried over to the 2021-22 fiscal year when the expenditures will be incurred.

General Fund expenditures were originally budgeted at \$4,307,516, ending with a final budget of \$4,748,102. Actual expenditures for the year were \$4,371,303, resulting in a 7.9% variance from the final budget.

The main variance in expenditures was because of grants that were not spent that cross over fiscal years, salaries and benefits for support staff, custodial operations, maintenance, and the health center, indirect costs, and coaches that didn't get paid because sports were cancelled due to COVID.

Capital Assets

At June 30, 2021, the School District had \$3,803,489 (after accumulated depreciation) invested in a broad range of capital assets, including land, buildings, vehicles, and furniture and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of \$56,403 or 1.5 percent, from last year.

	<u>2021</u>	<u>2020</u>
Land	\$ 118,012	\$ 118,012
Building and building improvements	6,846,353	6,752,158
Buses and other vehicles, furniture and equipment	<u>838,033</u>	<u>775,233</u>
Total capital assets, before depreciation	<u>\$ 7,802,398</u>	<u>\$ 7,645,403</u>

Mason County Eastern School District

Management's Discussion and Analysis (Continued)

Debt

Other obligations include compensated absences. The pension liability was \$7,581,121 and the OPEB liability was \$1,168,761. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Long – term Debt

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2021:

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Due within one year
Governmental Activities:					
Compensated Absences	<u>\$ 23,965</u>	<u>\$ 3,975</u>	<u>\$ 5,259</u>	<u>\$ 22,681</u>	<u>\$ 9,100</u>

Economic Factors and Next Year's Budget

Factors considered when setting the District's 2021-2022 fiscal year budget, included anticipated state and federal funding and recognizing that the largest expenses are incurred in instruction, also included were anticipated and known increases for salaries, retirement, and health care costs.

Approximately 69% of total General Fund revenues in 2020-2021 were from the State foundation allowance, including property taxes. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. That makes the student count estimate an important factor impacting the budget. A prediction of 412 students at the state foundation allowance of \$8,111 was used in setting the budget for 2021-2022.

The 2020-2021 school year concludes with the second of a two year Education Association contract expiring August 2021.

Budget impacts for 2021-22 due to COVID-19 include the prediction of reduced enrollment. Higher cost associated with health requirements including masks, sanitizers, disinfectants, signage, remote learner support and increase technology hardware and software expenditures.

Contacting the School District's Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact our Superintendent at MCE Administration Office, 18 South Main, Custer, Michigan 49405.

Mason County Eastern School District
STATEMENT OF NET POSITION
June 30, 2021

	<u>Governmental activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 3,104,416
Investments	692
Receivables	7,388
Due from other governmental units	609,097
Inventories	6,187
Prepaid items	<u>26,033</u>
Total current assets	3,753,813
Noncurrent assets	
Capital assets, net	
Nondepreciable	118,012
Depreciable	<u>3,685,477</u>
Total noncurrent assets	<u>3,803,489</u>
Total assets	7,557,302
DEFERRED OUTFLOWS OF RESOURCES	
Related to other postemployment benefits	536,483
Related to pensions	<u>1,603,096</u>
Total deferred outflows of resources	<u>2,139,579</u>
Total assets and deferred outflows of resources	9,696,881
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	386,481
Due to other governmental units	12,686
Unearned revenue	104,721
Bonds and other obligations, due within one year	<u>9,100</u>
Total current liabilities	512,988
Noncurrent liabilities	
Bonds and other obligations, less amounts due within one year	13,581
Net other postemployment benefits liability	1,168,761
Net pension liability	<u>7,581,121</u>
Total noncurrent liabilities	<u>8,763,463</u>
Total liabilities	9,276,451
DEFERRED INFLOWS OF RESOURCES	
Related to other postemployment benefits	1,023,625
Related to pensions	<u>678,316</u>
Total deferred inflows of resources	<u>1,701,941</u>
Total liabilities and deferred inflows of resources	<u>10,978,392</u>
NET POSITION	
Net investment in capital assets	3,803,489
Restricted	
Capital projects	123,349
Sinking fund	489,894
Unrestricted	<u>(5,698,243)</u>
Total net position	<u>\$ (1,281,511)</u>

The accompanying notes are an integral part of this statement.

Mason County Eastern School District
STATEMENT OF ACTIVITIES
For the year ended June 30, 2021

<i>Functions/Programs</i>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Position Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	
Governmental activities				
Instruction	\$ 2,902,889	\$ 11,307	\$ 1,136,072	\$ (1,755,510)
Support services	1,638,938	-	349,129	(1,289,809)
Community services	722	-	-	(722)
Food services	331,663	13,583	369,408	51,328
Student/school activities	40,346	-	37,965	(2,381)
Athletics	111,736	7,927	-	(103,809)
Total governmental activities	<u>\$ 5,026,294</u>	<u>\$ 32,817</u>	<u>\$ 1,892,574</u>	(3,100,903)
General revenues				
Property taxes				2,053,451
Grants and contributions not restricted to specific programs				1,571,324
Investment earnings				4,283
Miscellaneous				43,437
Total general revenues				<u>3,672,495</u>
Change in net position				571,592
Net position at beginning of year, as restated				<u>(1,853,103)</u>
Net position at end of year				<u><u>\$ (1,281,511)</u></u>

The accompanying notes are an integral part of this statement.

Mason County Eastern School District
BALANCE SHEET
 Governmental Funds
 June 30, 2021

	General Fund	Sinking Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and cash equivalents	\$ 2,227,393	\$ 489,830	\$ 387,193	\$ 3,104,416
Investments	692	-	-	692
Receivables	7,293	-	95	7,388
Due from other governmental units	591,873	-	17,224	609,097
Due from other funds	275	64	-	339
Inventories	-	-	6,187	6,187
Prepaid items	26,033	-	-	26,033
Total assets	\$2,853,559	\$ 489,894	\$ 410,699	\$ 3,754,152
LIABILITIES				
Accounts payable	\$ 18,479	\$ -	\$ 2,296	\$ 20,775
Accrued liabilities	365,706	-	-	365,706
Due to other governmental units	12,686	-	-	12,686
Due to other funds	64	-	275	339
Unearned revenue	104,721	-	-	104,721
Total liabilities	501,656	-	2,571	504,227
FUND BALANCES				
Nonspendable				
Inventories	-	-	6,187	6,187
Prepaid items	26,033	-	-	26,033
Restricted				
Food service	-	-	154,508	154,508
Capital projects	-	-	123,349	123,349
Sinking fund	-	489,894	-	489,894
Committed for student/school activities	-	-	124,084	124,084
Assigned to subsequent year's budget appropriations	240,892	-	-	240,892
Unassigned	2,084,978	-	-	2,084,978
Total fund balances	2,351,903	489,894	408,128	3,249,925
Total liabilities and fund balances	\$2,853,559	\$ 489,894	\$ 410,699	\$ 3,754,152

The accompanying notes are an integral part of this statement.

Mason County Eastern School District
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION**
 June 30, 2021

Total fund balances—governmental funds \$ 3,249,925

Amounts reported for governmental activities in the Statement of
 Net Position are different because:

Capital assets used in governmental activities are not current
 financial resources and are not reported in the governmental funds.

Cost of capital assets	\$ 7,802,398	
Accumulated depreciation	<u>(3,998,909)</u>	3,803,489

Deferred inflows and outflows of resources related to pensions and other
 postemployment benefits are not reported in the governmental funds.

Deferred outflows of resources - related to other postemployment benefits	536,483	
Deferred inflows of resources - related to other postemployment benefits	(1,023,625)	
Deferred outflows of resources - related to pensions	1,603,096	
Deferred inflows of resources - related to pensions	<u>(678,316)</u>	437,638

Long-term obligations in governmental activities are not due and
 payable in the current period and are not reported in the
 governmental funds.

(8,772,563)

Net position of governmental activities

\$ (1,281,511)

The accompanying notes are an integral part of this statement.

Mason County Eastern School District
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Governmental Funds
 For the year ended June 30, 2021

	<u>General Fund</u>	<u>Sinking Fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
REVENUES				
Local sources				
Property taxes	\$ 1,794,259	\$ 259,192	\$ -	\$ 2,053,451
Investment earnings	3,519	661	103	4,283
Fees and charges	5,121	-	2,810	7,931
Student/school activities	-	-	37,965	37,965
Other	161,943	-	10,773	172,716
Total local sources	1,964,842	259,853	51,651	2,276,346
State sources	2,339,338	-	12,146	2,351,484
Federal sources	612,793	-	357,262	970,055
Total revenues	4,916,973	259,853	421,059	5,597,885
EXPENDITURES				
Current				
Instruction	2,633,473	-	-	2,633,473
Support services	1,660,329	-	-	1,660,329
Community services	722	-	-	722
Food services	-	-	320,454	320,454
Student/school activities	-	-	40,346	40,346
Capital projects	-	82,032	62,800	144,832
Total expenditures	4,294,524	82,032	423,600	4,800,156
Excess (deficiency) of revenues over (under) expenditures	622,449	177,821	(2,541)	797,729
OTHER FINANCING SOURCES (USES)				
Transfers in	18,000	-	76,779	94,779
Transfers out	(76,779)	-	(18,000)	(94,779)
Total other financing sources (uses)	(58,779)	-	58,779	-
Net change in fund balances	563,670	177,821	56,238	797,729
Fund balances at beginning of year, as restated	1,788,233	312,073	351,890	2,452,196
Fund balances at end of year	<u>\$ 2,351,903</u>	<u>\$ 489,894</u>	<u>\$ 408,128</u>	<u>\$ 3,249,925</u>

The accompanying notes are an integral part of this statement.

Mason County Eastern School District
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2021

Net change in fund balances—total governmental funds	\$	797,729
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities these costs are depreciated over their estimated useful lives.</p>		
Depreciation expense	\$ (213,398)	
Capital outlay	<u>156,995</u>	(56,403)
<p>Compensated absences reported in the Statement of Activities do not require the use of current financial resources. They are reported as expenditures when financial resources are used in the governmental funds.</p>		
		1,283
<p>Some other postemployment benefit related expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
		228,798
<p>Some pension related expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
		<u>(399,815)</u>
Change in net position of governmental activities	\$	<u>571,592</u>

The accompanying notes are an integral part of this statement.

Mason County Eastern School District
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Mason County Eastern School District (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities.

Generally accepted accounting principles require that if the School District is considered to be financially accountable for other organizations, those organizations should be included as component units in the School District's financial statements. Since no organizations met this criterion, none are included in the financial statements.

Basis of Presentation—Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the School District. All fiduciary activities, if any, are reported only in the fund financial statements. Governmental activities normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The fund financial statements provide information about the School District's funds, all of which are governmental funds. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The School District reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

The Sinking Fund accounts for sinking fund property tax levy, and the expenditures related to maintenance and replacement of capital assets.

Mason County Eastern School District
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Basis of Presentation—Government-wide and Fund Financial Statements —Continued

Additionally, the School District reports the following fund types:

Special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food services and student/school activities in the school service special revenue funds.

The capital projects fund accounts for the financial resources to be used for the acquisition of fixed assets or construction of major capital projects.

During the course of operations the School District has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Mason County Eastern School District
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting—Continued

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end).

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the current fiscal year, the foundation allowance was based on pupil membership counts taken in October and February.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-PRE property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are considered to be measurable and available only when cash is received by the government.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Investments

The School District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the School District are reported at fair value (generally based on quoted market prices). Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

Mason County Eastern School District
NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Cash and Investments—Continued

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers’ acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District’s deposits and investments are in accordance with statutory authority.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out method. The cost of such inventories is recorded as expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

As the School District constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Land and construction in progress are not depreciated. The other property, plant, and equipment, of the School District are depreciated using the straight-line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	10-50
Furniture and equipment	5-15
Vehicles	10

Mason County Eastern School District
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses in the year in which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Defined Benefit Plan

For purposes of measuring the net pension and net other postemployment benefits (OPEB) liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts of net position to report as restricted and unrestricted in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the School District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Mason County Eastern School District
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Fund Balance Flow Assumptions

Sometimes the School District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the School District's highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the School District that can, by formal action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by formal action remains in place until a similar action is taken (another formal action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as committed. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

Mason County Eastern School District
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Revenues and Expenditures/Expenses—Continued

Compensated Absences

The liability for compensated absences reported in the government-wide statement consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the General Fund are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts within major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2021.

Mason County Eastern School District
NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Sinking Fund

The Sinking Fund capital project fund records capital project activities funded with a Sinking Fund millage. For this fund the School District has complied with the applicable provisions of §1212 of the Revised School Code.

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2021, the School District had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's rating	Percent
External Investment Pool	<u>\$ 692</u>	55	AAAm	<u>100%</u>

The School District voluntarily invests certain excess funds in external investment pools (Pools). The Pools are external investment pools of "qualified" investments for Michigan school districts. The Pools are not regulated nor are they registered with the SEC. The fair value of the School District's investments is the same as the value of the Pool shares.

Interest rate risk

The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk

State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Concentration of credit risk

The School District does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2021, \$2,992,360 of the School District's bank balance of \$3,242,360 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Mason County Eastern School District
NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Custodial credit risk - investments

The School District does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk

The School District is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021 was as follows:

	Balance July 1, 2020	Additions	Deductions	Balance June 30, 2021
Capital assets, not being depreciated:				
Land	\$ 118,012	\$ -	\$ -	\$ 118,012
Capital assets, being depreciated:				
Land improvements	428,242	-	-	428,242
Buildings and improvements	6,323,916	94,195	-	6,418,111
Furniture and equipment	354,775	-	-	354,775
Vehicles	420,458	62,800	-	483,258
Total capital assets, being depreciated	7,527,391	156,995	-	7,684,386
Less accumulated depreciation:				
Land improvements	268,283	16,313	-	284,596
Buildings and improvements	3,038,607	146,823	-	3,185,430
Furniture and equipment	269,062	11,932	-	280,994
Vehicles	209,559	38,330	-	247,889
Total accumulated depreciation	3,785,511	213,398	-	3,998,909
Total capital assets, being depreciated, net	3,741,880	(56,403)	-	3,685,477
Capital assets, net	\$ 3,859,892	\$ (56,403)	\$ -	\$ 3,803,489

Depreciation

Depreciation expense has been charged to functions as follows:

Instruction	\$ 146,713
Support services	60,938
Food services	5,747
	\$ 213,398

Mason County Eastern School District
NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE E—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2021 is as follows:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Food Service	\$ 275
Sinking Fund	General Fund	<u>64</u>
		<u>\$ 339</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

The General Fund transferred \$76,779 to the Capital Project fund to finance operations. The Food Service Fund transferred \$18,000 to the General Fund to cover allowable indirect costs.

NOTE F—LONG-TERM OBLIGATIONS

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District.

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2021:

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2021</u>	<u>Due within</u> <u>one year</u>
Governmental activities					
Compensated absences	<u>\$ 23,965</u>	<u>\$ 3,975</u>	<u>\$ 5,259</u>	<u>\$ 22,681</u>	<u>\$ 9,100</u>

Mason County Eastern School District
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE G—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members—eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available on the ORS website at Michigan.gov/ORSSchools.

Benefits Provided – Pension

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected (Basic, Member Investment Plan (MIP), Pension Plus, Pension Plus 2), member retirement benefits for DB plan members are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System who became a member after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4 percent of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50 percent (up to 1 percent of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Mason County Eastern School District
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE G—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Benefits Provided – Pension—Continued

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional service or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus plan described above and a DC plan that provides a 50 percent employer match (up to 3 percent of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period, as reported to ORS, to elect to opt out of the Pension Plus plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus plan. If they elect to opt out of the Pension Plus plan, their participation in the DC plan will be retroactive to their date of hire.

Employees in the Pension Plus and DC plans are immediately vested in their own contributions and earnings on those contributions. The employee becomes vested in the employer match contribution at the following rates: 50 percent after two years of service, 75 percent after three years of service, and 100 percent after four years of service. Non-vested contributions are forfeited upon termination of employment. Forfeitures during a plan year are credited to a forfeitures account. Forfeitures are first applied to restore any forfeited amounts that are required to be restored. The remaining amounts in the forfeitures account may be maintained in reserve, used to cover a portion of the plan's administrative expenses or offset future employer contributions, as determined by the plan administrator.

Pension Reform 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closes the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan (Pension Plus 2) with similar plan benefit calculations, but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan is 6 percent. Further, the law provides that, under certain conditions, the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85 percent for two consecutive years. The law includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Regular Retirement

The pension benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation (FAC). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period. For a Member Investment Plan member, who became a member of MPSERS prior to July 1, 2010, the averaging period is 36 consecutive months. For a Pension Plus member, who became a member of MPSERS after June 30, 2010, the averaging period is 60 consecutive months. For a Basic Plan member, this period is the 60 consecutive months yielding the highest total wages. The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012.

Mason County Eastern School District
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE G—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Benefits Provided – Pension—Continued

Post-Retirement Adjustments

A retiree who became a Member Investment Plan member prior to July 1, 2010, receives an annual post-retirement non-compounded increase of three percent of the initial pension in the October following twelve months of retirement. Basic Plan members do not receive an annual post-retirement increase, but are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions. Pension Plus members do not receive an annual post-retirement increase.

Plan Status

The Basic, MIP, and Pension Plus plans are closed to new entrants. The Pension Plus 2 plan and the DC plan are still open to new entrants.

Benefits Provided – OPEB

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80 percent beginning January 1, 2013; 90 percent for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3 percent contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3 percent contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date, earning them a 2 percent employer match into a 401(k) account. Members who selected this option stop paying the 3 percent contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

Mason County Eastern School District
NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE G—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Contributions – Pension and OPEB

School Districts are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2019 valuation will be amortized over a 19-year period beginning October 1, 2019, and ending September 30, 2038.

The schedules below summarize the contribution rates in effect for the System’s fiscal year ended September 30, 2020.

Pension Contribution Rates

<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0 - 4.0 %	19.41 %
Member Investment Plan	3.0 - 7.0	19.41
Pension Plus Plan	3.0 - 6.4	16.46
Pension Plus 2 Plan	6.2	19.59
Defined Contribution	0.0	13.39

OPEB Contribution Rates

<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Premium Subsidy	3.00 %	8.09 %
Personal Healthcare Fund	0.00	7.57

The School District’s pension contributions for the year ended June 30, 2021 were equal to the required contribution total. Pension contributions were approximately \$633,600, including Section 147c contributions.

For the year ended June 30, 2021, the School District and employee defined contribution plan contributions were approximately \$21,600 and \$27,400, respectively.

The School District’s OPEB contributions for the year ended June 30, 2021 were equal to the required contribution total. OPEB contributions were approximately \$153,900.

Mason County Eastern School District
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE G—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2021, the School District reported a liability of \$7,581,121 for its proportionate share of the net pension liability and a liability of \$1,168,761 for its proportionate share of the net OPEB liability.

The net pension and OPEB liabilities were measured as of September 30, 2020, and the total pension and OPEB liabilities used to calculate the net pension and OPEB liabilities were determined by an actuarial valuation rolled forward from September 30, 2019. The School District’s proportion of the net pension and OPEB liabilities was determined by dividing each employer’s statutorily required pension and OPEB contributions to the system during the measurement period by the percent of pension and OPEB contributions, respectively, required from all applicable employers during the measurement period. At September 30, 2020 and 2019, the School District’s pension proportion was 0.02207 and 0.02286 percent, respectively. At September 30, 2020 and 2019, the School District’s OPEB proportion was 0.02182 and 0.02267 percent, respectively.

For the year ended June 30, 2021, the School District recognized pension expense (benefit) of \$997,158 and OPEB expense (benefit) of \$(75,413).

At June 30, 2021, the School District reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Pension		OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual experience	\$ 115,833	\$ 16,181	\$ -	\$ 870,836
Changes of assumptions	840,061	-	385,364	-
Net difference between projected and actual earnings on plan investments	31,852	-	9,755	-
Changes in proportion and differences between School District contributions and proportionate share of contributions	15,193	378,891	1,821	152,789
State of Michigan Section 147c UAAL rate stabilization state aid payments subsequent to the measurement date	-	283,244	-	-
School District contributions subsequent to the measurement date	600,157	-	139,543	-
Total	\$ 1,603,096	\$ 678,316	\$ 536,483	\$ 1,023,625

Mason County Eastern School District
NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE G—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources—Continued

The School District contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions and OPEB, in the chart above, will be recognized as a reduction of the net pension liability and the net OPEB liability, respectively, in the year ended June 30, 2022. The State of Michigan Section 147c UAAL rate stabilization state aid payments subsequent to the measurement date reported as deferred inflows of resources will be recognized as revenue in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized in expense as follows:

Year ending June 30,	Pension	OPEB
2022	\$ 313,241	\$ (172,282)
2023	182,424	(158,715)
2024	85,002	(128,991)
2025	27,200	(94,111)
2026	-	(72,586)

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Summary of Actuarial Assumptions

Valuation date	September 30, 2019
Actuarial cost method	Entry age, Normal
Investment rate of return –	6.8% a year for the MIP and Basic plans 6.8% a year for the Pension Plus plan 6% a year for the Pension Plus 2 plan 6.95% a year for OPEB
Salary increases –	2.75%-11.55%
Inflation –	2.75%
Cost-of-living pension adjustments –	3% annual non-compounded for MIP members
Healthcare cost trend rate –	7% Year 1 graded to 3.5% Year 15; 3% Year 120

Mortality Assumptions

The healthy life post-retirement mortality tables used in this valuation of the System were the RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Mason County Eastern School District
NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE G—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Actuarial Assumptions—Continued

Experience Study

The annual actuarial valuation report of the System used for these statements is dated September 30, 2019. Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2017 valuation.

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the plan’s target asset allocation as of September 30, 2020 are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	25.0 %	5.6 %
Private Equity Pools	16.0	9.3
International Equity Pools	15.0	7.4
Fixed Income Pools	10.5	0.5
Real Estate and Infrastructure Pools	10.0	4.9
Absolute Return Pools	9.0	3.2
Real Return/Opportunistic Pools	12.5	6.6
Short Term Investment Pools	2.0	0.1
Total	100.0 %	

*Long term rates of return are net of administrative expenses and 2.3% inflation.

Rate of return

For the fiscal year ended September 30, 2020, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 5.37 percent and 5.24 percent on pension plan and OPEB plan investments, respectively.

Discount rate

In the current year, the discount rates used to measure the total pension and OPEB liabilities were 6.8 percent (6.8 percent for the Pension Plus plan and 6 percent for the Pension Plus 2 plan), and 6.95 percent, respectively. The discount rates used to measure the total pension and OPEB liability as of June 30, 2020 were 6.8 percent (6.8 percent for the Pension Plus Plan and 6 percent for the Pension Plus 2 plan), and 6.95 percent, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension and OPEB plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

Mason County Eastern School District
NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE G—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Sensitivity of the net pension liability to changes in the discount rate

The following presents the School District’s proportionate share of the net pension liability calculated using the discount rate of 6.8 percent (6.8 percent for the Pension Plus plan and 6 percent for the Pension Plus 2 plan), as well as what the School District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

1% Lower (5.8% / 5.8% / 5%)	Discount Rate (6.8% / 6.8% / 6%)	1% Higher (7.8% / 7.8% / 7%)
\$ 9,812,474	\$ 7,581,121	\$ 5,731,825

Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the School District’s proportionate share of the net OPEB liability calculated using the discount rate of 6.95 percent, as well as what the School District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

1% Lower (5.95%)	Discount Rate (6.95%)	1% Higher (7.95%)
\$ 1,501,406	\$ 1,168,761	\$ 888,701

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate

The following presents the School District’s proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the School District’s proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is 1 percentage point lower or 1 percentage point higher:

1% Lower	Current Healthcare Cost Trend Rate	1% Higher
\$ 877,978	\$ 1,168,761	\$ 1,499,490

Pension and OPEB Plans Fiduciary Net Position

Detailed information about the pension and OPEB plans’ fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System Comprehensive Annual Financial Report available at www.michigan.gov/orsschools.

Payable to the pension and OPEB plan

At year end the School District is current on all required pension and OPEB payments. Accruals for July and August deferred payroll and for July and August Section 147c amounts are not considered payables for this purpose.

Mason County Eastern School District
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE H—COMMITMENTS AND CONTINGENCIES

Operating Leases

The School District leases the Fountain School building to FiveCAP, Inc. a non-profit corporation. The School District had negotiated a twenty-year lease which expired in August 2018 and is now leased on a month to month basis. Under terms of the lease, the building will be leased for one dollar per year with FiveCAP, Inc. responsible for maintenance, repairs, and operational costs of the building.

Grant Programs

The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

NOTE I—RISKS AND UNCERTAINTIES

The COVID-19 pandemic that the world is experiencing is unprecedented. It is nearly impossible to fully understand the impact that it will have on the economy and on the School District's operations. As of June 30, 2021, the School District continues to implement risk mitigation tactics including all aspects of the School District's activities related to public school education, relationships with local, state, and federal government funding sources, compliance with the requirements of these funding sources and with business transactions with customers, vendors and human interaction within and outside of the School District.

NOTE J—OTHER INFORMATION

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2021 or any of the prior four years.

NOTE K—TAX ABATEMENTS

GASB Statement 77—*Tax Abatement Disclosures* was issued by the GASB in August 2015 and is effective for the School District's 2017 fiscal year. This Statement requires School Districts to disclose the following information about tax abatement agreements entered into by other governments that reduce the School District's tax revenues: the names of the governments that entered into the agreements, the specific taxes being abated, and the gross dollar amount of taxes abated during the period. For the current fiscal year there were no material agreements entered into by local taxing authorities that would require disclosure.

Mason County Eastern School District
NOTES TO FINANCIAL STATEMENTS
 June 30, 2021

NOTE L—CHANGE IN ACCOUNTING PRINCIPLE

The net position of the governmental activities and other governmental funds were restated effective July 1, 2020 to reflect the implementation of GASB Statement No. 84, Fiduciary Activities.

Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities, was issued by the GASB in January 2017 and is effective for the District’s 2021 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

The restatement of the net position at the beginning of the year and fund balance at the beginning of the year is as follows:

	Fund balances	
	Other governmental Funds	Total governmental funds
Fund balances at beginning of year, as previously stated	\$ 225,425	\$ 2,325,731
Adoption of GASB Statement 84	126,465	126,465
Fund balances at beginning of year, as restated	\$ 351,890	\$ 2,452,196
		Governmental activities
Net position at beginning of year, as previously stated		\$ (1,979,568)
Adoption of GASB Statement 84		126,465
Net position at beginning of year, as restated		\$ (1,853,103)

Mason County Eastern School District
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE M—UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement 87—*Leases* was issued by the GASB in June 2017 and will be effective for the School District’s 2022 fiscal year. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

GASB Statement 96—*Subscription-Based Information Technology Arrangements* was issued by the GASB in May 2020 and will be effective for the School District’s 2023 fiscal year. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

REQUIRED SUPPLEMENTARY INFORMATION

Mason County Eastern School District
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

General Fund

For the year ended June 30, 2021

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with final budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local sources	\$ 1,886,487	\$ 2,045,227	\$ 1,964,842	\$ (80,385)
State sources	1,739,404	2,343,422	2,339,338	(4,084)
Federal sources	203,917	674,947	612,793	(62,154)
Incoming transfers and other transactions	17,000	18,000	18,000	-
Total revenues	3,846,808	5,081,596	4,934,973	(146,623)
EXPENDITURES				
Instruction				
Basic programs	2,060,803	2,078,394	2,041,455	36,939
Added needs	648,857	617,291	592,018	25,273
Support services				
Pupil	45,421	81,563	84,251	(2,688)
Instructional staff	43,312	52,887	28,417	24,470
General administration	264,347	301,959	282,511	19,448
School administration	342,458	367,411	348,102	19,309
Business	75,620	88,969	73,860	15,109
Operations and maintenance	368,527	532,278	383,844	148,434
Pupil transportation services	239,666	284,386	236,717	47,669
Central	70,700	117,667	112,965	4,702
Athletics	117,805	118,978	109,662	9,316
Community services	-	17,100	722	16,378
Outgoing transfers and other transactions	30,000	89,219	76,779	12,440
Total expenditures	4,307,516	4,748,102	4,371,303	376,799
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (460,708)</u>	<u>\$ 333,494</u>	563,670	<u>\$ 230,176</u>
Fund balance at beginning of year			<u>1,788,233</u>	
Fund balance at end of year			<u>\$ 2,351,903</u>	

Mason County Eastern School District
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of the School District's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement System
Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
School District's proportion of the net pension liability (%)	0.02207%	0.02286%	0.02392%	0.02456%	0.02401%	0.02382%	0.02257%	-	-	-
School District's proportionate share of the net pension liability	\$ 7,581,121	\$ 7,568,940	\$ 7,190,643	\$ 6,365,820	\$ 5,990,551	\$ 5,818,452	\$ 4,971,668	\$ -	\$ -	\$ -
School District's covered payroll	\$ 1,935,396	\$ 1,966,868	\$ 2,068,646	\$ 2,174,360	\$ 2,147,233	\$ 2,111,947	\$ 1,920,600	\$ -	\$ -	\$ -
School District's proportionate share of the net pension liability as a percentage of its covered payroll	391.71%	384.82%	347.60%	292.77%	278.99%	275.50%	258.86%	-	-	-
Plan fiduciary net position as a percentage of the total pension liability	59.72%	60.31%	62.36%	64.21%	63.27%	63.17%	66.20%	-	-	-

Note: For years prior to 2015 the information is not available. Until a full 10-year trend is compiled, information will only be presented for those years for which information is available.

Mason County Eastern School District
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of the School District's Pension Contributions
Michigan Public School Employees Retirement System
Last 10 Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contributions	\$ 350,352	\$ 356,627	\$ 346,960	\$ 354,096	\$ 419,217	\$ 458,359	\$ 483,801	\$ -	\$ -	\$ -
Contributions in relation to the statutorily required contributions	350,352	356,627	346,960	354,096	419,217	458,359	483,801	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered payroll	\$ 1,896,663	\$ 1,929,837	\$ 1,981,482	\$2,097,262	\$2,372,595	\$2,121,780	\$1,972,805	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll	18.47%	18.48%	17.51%	16.88%	17.67%	21.60%	24.52%	-	-	-

Note: For years prior to 2015 the information is not available. Until a full 10-year trend is compiled, information will only be presented for those years for which information is available.

Mason County Eastern School District
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of the School District's Proportionate Share of the Net OPEB Liability
Michigan Public School Employees Retirement System
Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
School District's proportion of the net OPEB liability (%)	0.02182%	0.02267%	0.02328%	0.02460%	-	-	-	-	-	-
School District's proportionate share of the net OPEB liability	\$ 1,168,761	\$ 1,627,459	\$ 1,850,363	\$ 2,178,387	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District's covered payroll	\$ 1,935,396	\$ 1,966,868	\$ 2,068,646	\$ 2,174,360	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District's proportionate share of the net OPEB liability as a percentage of its covered payroll	60.39%	82.74%	89.45%	100.19%	-	-	-	-	-	-
Plan fiduciary net position as a percentage of the total OPEB liability	59.44%	48.46%	42.95%	36.39%	-	-	-	-	-	-

Note: For years prior to 2018 the information is not available. Until a full 10-year trend is compiled, information will only be presented for those years for which information is available.

Mason County Eastern School District
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of the School District's OPEB Contributions
Michigan Public School Employees Retirement System
Last 10 Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contributions	\$ 153,933	\$ 153,888	\$ 153,699	\$ 149,111	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the statutorily required contributions	153,933	153,888	153,699	149,111	-	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered payroll	\$ 1,896,663	\$ 1,929,837	\$ 1,981,482	\$2,097,262	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll	8.12%	7.97%	7.76%	7.11%	-	-	-	-	-	-

Note: For years prior to 2018 the information is not available. Until a full 10-year trend is compiled, information will only be presented for those years for which information is available.

Mason County Eastern School District
REQUIRED SUPPLEMENTARY INFORMATION
Notes to Required Supplementary Information
For the year ended June 30, 2021

Pension Information

Benefit changes – there were no changes of benefit terms in 2020.

Changes of assumptions – there were no changes of assumptions in 2020.

OPEB Information

Benefit changes – there were no changes in benefit terms in 2020.

Changes of assumptions – there were no changes of assumptions in 2020.

Mason County Eastern School District
**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**
Financial Report and
Independent Auditor's Reports
June 30, 2021



C O N T E N T S

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BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education
Mason County Eastern School District
Custer, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mason County Eastern School District as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Mason County Eastern School District's basic financial statements, and have issued our report thereon dated September 15, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mason County Eastern School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mason County Eastern School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Mason County Eastern School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Education
Mason County Eastern School District
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mason County Eastern School District’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Hart, Michigan
September 15, 2021

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Education
Mason County Eastern School District
Custer, Michigan

Report on Compliance for Each Major Federal Program

We have audited Mason County Eastern School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Mason County Eastern School District's major federal programs for the year ended June 30, 2021. Mason County Eastern School District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Mason County Eastern School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mason County Eastern School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Mason County Eastern School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Mason County Eastern School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Board of Education
Mason County Eastern School District
Page 2

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs, as **Finding 2021-001**. Our opinion on each major federal program is not modified with respect to this matter.

Mason County Eastern School District’s response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Mason County Eastern School District’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Mason County Eastern School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Mason County Eastern School District’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mason County Eastern School District’s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Board of Education
Mason County Eastern School District
Page 3

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mason County Eastern School District as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Mason County Eastern School District's basic financial statements. We issued our report thereon dated September 15, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Hart, Michigan
September 15, 2021

Mason County Eastern School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2021

Federal grantor/pass-through grantor/ program or cluster title/identifying number	CFDA/ Assistance Listing Number	Entitlement program or award amount	Accrued (unearned) revenue July 1, 2020	Adjustments and transfers	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)		Accrued (unearned) revenue June 30, 2021	Passed through to subrecipients
						Prior year(s)	Current year		
U.S. Department of Education									
Passed through Michigan Department of Education:									
Title I Grants to Local Educational Agencies	84.010A								
201530 1920		\$ 216,054	\$ 134,978	\$ -	\$ 160,300	\$ 168,007	\$ 25,322	\$ -	\$ -
211530 2021		208,479	-	-	146,550	-	208,479	61,929	-
		<u>424,533</u>	<u>134,978</u>	<u>-</u>	<u>306,850</u>	<u>168,007</u>	<u>233,801</u>	<u>61,929</u>	<u>-</u>
Supporting Effective Instruction State Grants	84.367A								
200520 1920		66,062	15,085	-	15,530	15,085	445	-	-
210520 2021		61,794	-	-	-	-	3,349	3,349	-
		<u>127,856</u>	<u>15,085</u>	<u>-</u>	<u>15,530</u>	<u>15,085</u>	<u>3,794</u>	<u>3,349</u>	<u>-</u>
Student Support and Academic Enrichment Program	84.424A								
200750 1920		13,674	5,199	-	5,199	13,674	-	-	-
210750 2021		13,574	-	-	13,574	-	13,574	-	-
		<u>27,248</u>	<u>5,199</u>	<u>-</u>	<u>18,773</u>	<u>13,674</u>	<u>13,574</u>	<u>-</u>	<u>-</u>
Education Stabilization Fund									
Governor's Emergency Education Relief Fund	84.425C								
201200 20-21 COVID-19		32,308	-	-	22,736	-	22,736	-	-
Elementary and Secondary School Emergency Relief Fund	84.425D								
203710 1920 COVID-19		153,326	-	-	118,481	-	153,326	34,845	-
203720 1920 COVID-19		24,532	-	-	10,972	-	24,532	13,560	-
		<u>177,858</u>	<u>-</u>	<u>-</u>	<u>129,453</u>	<u>-</u>	<u>177,858</u>	<u>48,405</u>	<u>-</u>
Total Education Stabilization Fund		<u>210,166</u>	<u>-</u>	<u>-</u>	<u>152,189</u>	<u>-</u>	<u>200,594</u>	<u>48,405</u>	<u>-</u>
Total U.S. Department of Education		789,803	155,262	-	493,342	196,766	451,763	113,683	-

Mason County Eastern School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—Continued
For the year ended June 30, 2021

Federal grantor/pass-through grantor/ program or cluster title/identifying number	CFDA/ Assistance Listing Number	Entitlement program or award amount	Accrued (unearned) revenue July 1, 2020	Adjustments and transfers	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)		Accrued (unearned) revenue June 30, 2021	Passed through to subrecipients
						Prior year(s)	Current year		
<i>U.S. Department of Agriculture</i>									
Passed through Michigan Department of Education:									
Child Nutrition Cluster									
National School Lunch Program	10.555								
Entitlement Commodities		\$ 19,691	\$ -	\$ -	\$ 19,691	\$ -	\$ 19,691	\$ -	\$ -
Bonus Commodities		534	-	-	534	-	534	-	-
		<u>20,225</u>	<u>-</u>	<u>-</u>	<u>20,225</u>	<u>-</u>	<u>20,225</u>	<u>-</u>	<u>-</u>
Summer Food Service Program for Children	10.559								
200900 COVID-19		26,065	-	-	26,065	-	26,065	-	-
210904 COVID-19		302,150	-	-	287,893	-	302,150	14,257	-
		<u>328,215</u>	<u>-</u>	<u>-</u>	<u>313,958</u>	<u>-</u>	<u>328,215</u>	<u>14,257</u>	<u>-</u>
Total Child Nutrition Cluster		348,440	-	-	334,183	-	348,440	14,257	-
Child and Adult Care Food Program	10.558								
201920		805	-	-	805	-	805	-	-
211920		8,017	-	-	7,856	-	8,017	161	-
		<u>8,822</u>	<u>-</u>	<u>-</u>	<u>8,661</u>	<u>-</u>	<u>8,822</u>	<u>161</u>	<u>-</u>
Total U.S. Department of Agriculture		357,262	-	-	342,844	-	357,262	14,418	-
<i>U.S. Department of Treasury</i>									
Passed through Michigan Department of Education:									
Coronavirus Relief Funds									
103(2) District COVID Costs COVID-19	21.019	5,266	-	-	5,266	-	5,266	-	-
11p Coronavirus Relief Funds COVID-19		149,601	-	-	149,601	-	149,601	-	-
		<u>154,867</u>	<u>-</u>	<u>-</u>	<u>154,867</u>	<u>-</u>	<u>154,867</u>	<u>-</u>	<u>-</u>
Passed through Copper Country Intermediate School District:									
Coronavirus Relief Fund									
Device Purchasing Program/Distance Learning	21.019								
CRF Grant COVID-19		6,163	-	-	6,163	-	6,163	-	-
		<u>6,163</u>	<u>-</u>	<u>-</u>	<u>6,163</u>	<u>-</u>	<u>6,163</u>	<u>-</u>	<u>-</u>
Total U.S. Department of Treasury		161,030	-	-	161,030	-	161,030	-	-
TOTAL FEDERAL ASSISTANCE		\$ 1,308,095	\$ 155,262	\$ -	\$ 997,216	\$ 196,766	\$ 970,055	\$ 128,101	\$ -

The accompanying notes are an integral part of this schedule.

Mason County Eastern School District
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended June 30, 2021

1. The accompanying Schedule of Expenditures of Federal Awards (the “schedule”) includes the federal award activity of the School District under programs of the federal government for the year ended June 30, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position or change in net position of the School District.

2. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule. Expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The School District is not using the ten-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. Management has utilized the Michigan Department of Education Cash Management System Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

4. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2021

Governmental Funds financial statements

General Fund	\$ 612,793	
Food Service Fund	<u>357,262</u>	<u>\$ 970,055</u>

Expenditures per single audit report

Schedule of Expenditures of Federal Awards		<u><u>\$ 970,055</u></u>
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Mason County Eastern School District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the year ended June 30, 2021

SECTION I—SUMMARY OF AUDITOR’S RESULTS

A. Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**
2. Internal control over financial reporting:
 - Material weakness(es) identified? _____ yes X no
 - Significant deficiency(ies) identified? _____ yes X none reported
3. Noncompliance material to financial statements noted? _____ yes X no

B. Federal Awards

1. Internal control over major federal programs:
 - Material weakness(es) identified? _____ yes X no
 - Significant deficiency(ies) identified? _____ yes X none reported
2. Type of auditor’s report issued on compliance for major federal programs: **Unmodified**
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes _____ no

4. Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program/Cluster</u>
10.555 and 10.559	U.S. Department of Agriculture
	<ul style="list-style-type: none"> • Child Nutrition Cluster
21.019	U.S. Department of Treasury
	<ul style="list-style-type: none"> • Coronavirus Relief Fund

5. Dollar threshold used to distinguish between type A and type B programs: **\$750,000**
6. Auditee qualified as low-risk auditee? _____ yes X no

Mason County Eastern School District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS—Continued
For the year ended June 30, 2021

SECTION II – FINANCIAL STATEMENT FINDINGS

NONE

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. Department of Education

Finding 2021-001: Child Nutrition Cluster Resource Management Procedures

Pass-through entity: Michigan Department of Education

CFDA: 10.555 and 10.559

Award Numbers: 200900 COVID-19, 210904 COVID-19 and Bonus and Entitlement Commodities

Award Year Ends: June 30, 2021

Specific Requirement: Special Tests – Net cash resources

Criteria: Section 210.14(b) and 210.19(a)(1) of the Cost Principles of the Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) requires a School District to limit its net cash resources in the Food Service Fund to the maximum allowable amount of three months of average expenditures.

Questioned Costs: None.

Condition: During our testing of the Child Nutrition Cluster net cash resources, we noted that the School District Food Service Fund net cash resources were in excess of the maximum allowable amount.

Context: As of June 30, 2021, the School District Food Service Fund net cash resources were in excess of the maximum allowable amount.

Effect: The School District could receive reduced funding in future years if the condition continues.

Cause: The School District had planned to reduce its Food Service Fund net cash resources below the maximum threshold, but it was unable to get proper approvals, order and receive purchased items and/or services by the end of the fiscal year. Due to the supply chain issues that the entire United States was experiencing, items were not delivered before the fiscal year end. These items included a salad bar, a microwave, a water heater booster, a banner, and uniforms.

Repeat Finding: This is **not** a repeat finding.

Recommendation: The School District should develop and complete a spend-down plan to ensure it reduces its Food Service Fund net cash resources below the maximum allowable amount.

Views of Responsible Officials: The School District agrees with this finding.

CLIENT DOCUMENTS



MASON COUNTY EASTERN SCHOOLS

18 South Main Street
Custer, Michigan 49405-9624
Phone: (231) 757-3733
Fax: (231) 757-9671

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

September 15, 2021

Michigan Department of Education
Lansing, Michigan

Mason County Eastern School District respectfully advises you that **no** single audit was required to be performed for the year ended June 30, 2020.

Sincerely,

Paul Shoup
Superintendent



MASON COUNTY EASTERN SCHOOLS

18 South Main Street
Custer, Michigan 49405-9624
Phone: (231) 757-3733
Fax: (231) 757-9671

CORRECTIVE ACTION PLAN

September 15, 2021

Michigan Department of Education
Lansing, Michigan

Mason County Eastern School District respectfully submits the following Corrective Action Plan for the year ended June 30, 2021.

Name and address of independent public accounting firm:

Brickley DeLong, P.C.
907 S. State Street
Hart, Michigan 49420

Audit period: June 30, 2021

The findings from the Schedule of Findings and Questioned Costs for the year ended June 30, 2021 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

SECTION II – FINANCIAL STATEMENT FINDINGS

There were **no** findings in relation to the financial statements audit.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2021-001:

Recommendation: The School District should develop and complete a spend-down plan to ensure it reduces its Food Service Fund net cash resources below the maximum allowable amount.

Action Taken: As of September 15, 2021, the School District has received items ordered prior to the fiscal year ended June 30, 2021 and will also develop and implement a spend-down plan to reduce the Food Service Fund net cash resources below the maximum allowable amount.

Responsible Person and Anticipated Completion Date: The Superintendent will ensure the spend-down plan has been accomplished by June 30, 2021.

If the Michigan Department of Education has questions regarding this plan, please call Paul Shoup at (231) 757-3733.

Sincerely,



Paul Shoup
Superintendent