

East Jackson
Community
Schools



Year Ended
June 30, 2020

Financial
Statements and
Single Audit
Compliance Act

Rehmann

EAST JACKSON COMMUNITY SCHOOLS

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INDEPENDENT AUDITORS' REPORT

October 29, 2020

Board of Education
East Jackson Community Schools
Jackson, 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 *East Jackson Community Schools* (the "District"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the 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.

Independent Auditors' 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 auditors' 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.

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 East Jackson Community Schools as of June 30, 2020, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules for the pension and other postemployment benefit plan, as listed in the table of contents, 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 October 29, 2020, on our consideration of the 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 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 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 the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rehmann Lohman LLC". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

EAST JACKSON COMMUNITY SCHOOLS

Management's Discussion and Analysis

As management of East Jackson Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2020.

Financial Highlights

• Total net position	\$ (17,940,103)
• Change in total net position	(1,492,710)
• Fund balances, governmental funds	7,853,824
• Change in fund balances, governmental funds	(889,991)
• Unassigned fund balance, general fund	651,874
• Change in fund balance, general fund	(98,168)
• General obligation bonds outstanding	26,540,000
• Change in general obligation bonds	1,210,000
• Capital assets, net	21,579,143

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components:

1. *Government-wide Financial Statements*
2. *Fund Financial Statements*
3. *Notes to the Financial Statements*

This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to the private business sector.

The *statement of net position* presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual balance reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include instruction, supporting services, community services, athletics, and food service. The District has no business-type activities during the current year.

EAST JACKSON COMMUNITY SCHOOLS

Management's Discussion and Analysis

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Like other state and local governments, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the District can be divided into two categories: *governmental funds* and *fiduciary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Readers may better understand the long-term impact of the government's near-term financing decisions by doing it this way. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt retirement fund, and 2017 capital projects fund, which are the District's major funds.

The District adopts an annual appropriated budget for its general fund and food service special revenue fund. A budgetary comparison statement has been provided herein to demonstrate compliance with the general fund budget.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management's discussion and analysis and the schedules for the MPSERS pension and other postemployment benefit plan immediately following the notes to the financial statements.

EAST JACKSON COMMUNITY SCHOOLS

Management's Discussion and Analysis

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$17,940,103 at the close of the most recent fiscal year.

A portion of the District's net position reflects its investment in capital assets (e.g. land, buildings and improvements, equipment and furniture, and vehicles); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Net Position	
	2020	2019
Assets		
Current and other assets	\$ 9,360,472	\$ 10,997,863
Capital assets, net	21,579,143	22,238,881
Total assets	<u>30,939,615</u>	<u>33,236,744</u>
Deferred outflows of resources	<u>6,399,688</u>	<u>6,291,608</u>
Liabilities		
Long-term debt	28,202,265	28,942,477
Other liabilities	23,832,165	23,386,069
Total liabilities	<u>52,034,430</u>	<u>52,328,546</u>
Deferred inflows of resources	<u>3,244,976</u>	<u>3,647,199</u>
Net position:		
Net investment in capital assets	4,524,545	4,147,777
Restricted	202,021	181,356
Unrestricted (deficit)	(22,666,669)	(20,776,526)
Total net position	<u>\$ (17,940,103)</u>	<u>\$ (16,447,393)</u>

An additional portion of the District's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net position, which has a negative balance.

The results of this year's operations for the District as a whole are reported in the statement of activities, which shows the change in net position for the fiscal year 2020.

EAST JACKSON COMMUNITY SCHOOLS

Management's Discussion and Analysis

Governmental Activities

The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in fiscal year 2015 and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in fiscal year 2018. In addition to expanded disclosure requirements, the District is required to report its proportionate share of the MPERS net pension liability and net other postemployment benefit liability on the statement of net position. This change has resulted in a negative total net position of governmental activities of \$17,940,103. Of this amount, \$(22,666,669) is unrestricted net position (deficit) and \$202,021 represents resources that are subject to external restrictions on how they may be used. The operating results of the general fund will have a significant impact on the change in unrestricted net position from year to year.

	Change in Net Position	
	2020	2019
Revenues		
Program revenues:		
Charges for services	\$ 292,150	\$ 152,574
Operating grants and contributions	1,453,302	1,559,691
General revenues:		
Property taxes	3,455,911	3,280,669
Unrestricted state aid	6,206,332	6,561,642
Grants and contributions not restricted to specific programs	825,171	789,819
Unrestricted investment earnings	101,269	479
Gain on sale of capital assets	4,265	3,615
Total revenues	<u>12,338,400</u>	<u>12,348,489</u>
Expenses		
Instruction	6,973,667	6,745,687
Supporting services	4,111,020	3,287,557
Community services	4,059	8,390
Athletics	285,220	328,622
Food service	580,691	653,709
Interest on long-term debt	986,154	725,149
Unallocated depreciation	890,299	810,437
Total expenses	<u>13,831,110</u>	<u>12,559,551</u>
Change in net position	(1,492,710)	(211,062)
Net position, beginning of year	<u>(16,447,393)</u>	<u>(16,236,331)</u>
Net position, end of year	<u>\$ (17,940,103)</u>	<u>\$ (16,447,393)</u>

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

EAST JACKSON COMMUNITY SCHOOLS

Management's Discussion and Analysis

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$7,853,824. Approximately 8.3% of this total amount (\$651,874) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is nonspendable, to indicate that it is not available for new spending because the underlying assets are included in inventory and are not available for current expenditure, or it is constrained by externally imposed restrictions.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, the total fund balance of the general fund was \$658,996, of which \$651,874 is considered unassigned and the remaining balance is nonspendable for inventory or restricted for the Community Caring Dinner. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents approximately 6.5% of total general fund expenditures.

The fund balance of the District's general fund decreased \$98,168 during the current fiscal year. This is attributable to an increase in capital spending. The District purchased a van, two trucks, a plow, and technology equipment with general fund monies.

The fund balance of the District's debt retirement fund decreased \$674 during the current fiscal year.

The fund balance of the District's 2017 capital projects fund decreased \$831,231 during the current fiscal year. This is attributable to the capital outlay related to the bond project.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with 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 at year end. A statement showing the District's original and final budget amounts for the general fund compared with amounts actually paid and received is provided with the governmental fund section in these financial statements.

The original budget is adopted by the school board before the start of the District's fiscal year and the final amended budget is adopted at the end of the fiscal year. The difference between the two relates to adjustments made in salaries, benefits, and general expenditures throughout the course of the year. Once the adjustments are known, the budget is adjusted accordingly.

EAST JACKSON COMMUNITY SCHOOLS

Management's Discussion and Analysis

As summarized below, during the 2020 fiscal year the General Fund had total revenues and other financing sources of \$10,002,628 and total expenditures of \$10,100,796. As a result the fund balance at year-end decreased by \$98,168 to a total of \$658,996.

Summary of General Fund Performance			
For the Year Ended June 30, 2020			
	Original Budget	Final Budget	Actual Results
Total revenues and other financing sources	\$ 10,296,809	\$ 10,317,384	\$ 10,002,628
Total expenditures	10,293,528	10,339,142	10,100,796
Net change in fund balance	3,281	(21,758)	(98,168)
Fund balance - Beginning of year	757,164	757,164	757,164
End of year	<u>\$ 760,445</u>	<u>\$ 735,406</u>	<u>\$ 658,996</u>

The General Fund actual revenues and other financing sources were less than both the original and final amended budgets largely due to federal and state grants. Due to the COVID-19 pandemic, the District was unable to spend all of their allocated Title dollars. Additionally, the State Aid was cut near the end of the fiscal year. The General Fund actual expenditures were less than both the original and final amended budgets, primarily due to instruction and added needs expenditures. The District did not pay any Schedule B's for the spring and cut 20% of the extra duty pay. Additionally, the District planned to purchase a truck for \$40,000, but ultimately decided to wait until fiscal 2020-2021.

Capital Assets and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2020, amounted to \$21,579,143 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment and furniture, and vehicles.

The major capital asset expenditures during the current fiscal year included the purchase of a van, two buses, and a salt spreader.

Capital Assets (Net of Depreciation)		
	2020	2019
Land	\$ 256,527	\$ 256,527
Buildings and improvements	20,002,778	20,553,912
Equipment and furniture	757,536	1,009,324
Vehicles	562,302	419,118
Total capital assets, net	<u>\$ 21,579,143</u>	<u>\$ 22,238,881</u>

Additional information regarding the District's capital assets can be found in the notes to the financial statements.

EAST JACKSON COMMUNITY SCHOOLS

Management's Discussion and Analysis

Long-term Debt

At the end of the current fiscal year, the District had total long-term debt outstanding of \$28,202,265.

	Long-term Debt	
	2020	2019
General obligation bonds	\$ 26,540,000	\$ 25,330,000
School loan revolving fund	1,060,939	2,880,032
Unamortized premium	437,528	541,781
Compensated absences	163,798	190,664
Total	<u>\$ 28,202,265</u>	<u>\$ 28,942,477</u>

The District's total long-term debt decreased by \$740,212. The key factors in this decrease was proceeds from the issuance of the 2019 Refunding Bonds, proceeds from the school loan revolving fund, offset by the principal payments of general obligation bond debt during the year.

Additional information regarding the District's long-term debt can be found in the notes to the financial statements.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2020-2021 fiscal year:

- The 2020-2021 foundation was not approved by the legislature at the time of the budget adoption. The District budgeted for \$7,411; \$700 less than the 2019-2020 fiscal year based on information at the time the budget was prepared. The 2020-2021 foundation was approved by the legislature as of September 30, 2020 at a flat funding rate of \$8,111.
- An anticipated 0.3% increase in the District's taxable value
- An anticipated decrease of 5% in health insurance costs
- The budget for the year ended June 30, 2021 was adopted in June 2020 when there was a high degree of uncertainty related to the funding and operations for districts in the State of Michigan due to the novel coronavirus outbreak (COVID-19). Subsequent to year end, additional funding has been provided by the State of Michigan through various restricted federal grant programs. Despite this, there continues to be a high degree of uncertainty regarding potential changes to state and federal funding. In addition, the District is continuously evaluating the impacts of the pandemic as it determines the appropriate methods to deliver education to students in a safe environment. These factors will have a significant impact on the operational and financial performance of the District.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Superintendent, 1404 N. Sutton Road, Jackson, MI 49202.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

EAST JACKSON COMMUNITY SCHOOLS

Statement of Net Position

June 30, 2020

	Governmental Activities
Assets	
Cash, cash equivalents and investments	\$ 7,683,666
Due from other governments	1,171,457
Inventory	192,349
Assets held for sale	313,000
Capital assets not being depreciated	256,527
Capital assets being depreciated, net	<u>21,322,616</u>
Total assets	<u>30,939,615</u>
Deferred outflows of resources	
Deferred charge on advance bond refundings, net	64,545
Deferred pension amounts	5,104,566
Deferred other postemployment benefit amounts	<u>1,230,577</u>
Total deferred outflows of resources	<u>6,399,688</u>
Liabilities	
Accounts payable, accrued liabilities and notes payable	1,230,148
Unearned revenue	116,600
Long-term debt:	
Due within one year	1,835,738
Due in more than one year	26,366,527
Net pension liability (due in more than one year)	18,473,146
Net other postemployment benefit liability (due in more than one year)	<u>4,012,271</u>
Total liabilities	<u>52,034,430</u>
Deferred inflows of resources	
Deferred pension amounts	1,498,725
Deferred other postemployment benefit amounts	<u>1,746,251</u>
Total deferred inflows of resources	<u>3,244,976</u>
Net position	
Net investment in capital assets	4,524,545
Restricted for:	
Food service	195,343
Community Caring Dinner	6,678
Unrestricted (deficit)	<u>(22,666,669)</u>
Total net position	<u><u>\$ (17,940,103)</u></u>

The accompanying notes are an integral part of these financial statements.

EAST JACKSON COMMUNITY SCHOOLS

Statement of Activities

For the Year Ended June 30, 2020

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 6,973,667	\$ -	\$ -	\$ (6,973,667)
Supporting services	4,111,020	75,271	847,557	(3,188,192)
Community services	4,059	-	-	(4,059)
Athletics	285,220	198,088	-	(87,132)
Food service	580,691	18,791	605,745	43,845
Interest on long-term debt	986,154	-	-	(986,154)
Unallocated depreciation	890,299	-	-	(890,299)
Total governmental activities	\$ 13,831,110	\$ 292,150	\$ 1,453,302	(12,085,658)
General revenues				
Property taxes				3,455,911
Unrestricted state aid				6,206,332
Grants and contributions not restricted to specific programs				825,171
Unrestricted investment earnings				101,269
Gain on sale of capital assets				4,265
Total general revenues				10,592,948
Change in net position				(1,492,710)
Net position, beginning of year				(16,447,393)
Net position, end of year				\$ (17,940,103)

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

EAST JACKSON COMMUNITY SCHOOLS

Balance Sheet

Governmental Funds

June 30, 2020

	General Fund	Debt Retirement Fund	2017 Capital Projects	Nonmajor Special Revenue Food Service Fund	Totals
Assets					
Cash and cash equivalents	\$ 440,932	\$ 141,100	\$ 7,069,282	\$ 32,352	\$ 7,683,666
Due from other governments	1,167,876	-	-	3,581	1,171,457
Due from other funds	225,796	-	-	-	225,796
Inventory	444	-	-	191,905	192,349
Total assets	\$ 1,835,048	\$ 141,100	\$ 7,069,282	\$ 227,838	\$ 9,273,268
Liabilities					
Accounts payable	\$ 11,582	\$ 5,000	\$ 6,605	\$ 1,267	\$ 24,454
Salaries and retirement payable	961,041	-	-	4,724	965,765
Due to other funds	-	-	199,292	26,504	225,796
State aid note payable	86,829	-	-	-	86,829
Unearned revenue	116,600	-	-	-	116,600
Total liabilities	1,176,052	5,000	205,897	32,495	1,419,444
Fund balances					
Nonspendable -					
Inventory	444	-	-	191,905	192,349
Restricted:					
Debt service	-	136,100	-	-	136,100
Capital projects	-	-	6,863,385	-	6,863,385
Food service	-	-	-	3,438	3,438
Community Caring Dinner	6,678	-	-	-	6,678
Unassigned	651,874	-	-	-	651,874
Total fund balances	658,996	136,100	6,863,385	195,343	7,853,824
Total liabilities and fund balances	\$ 1,835,048	\$ 141,100	\$ 7,069,282	\$ 227,838	\$ 9,273,268

The accompanying notes are an integral part of these financial statements.

EAST JACKSON COMMUNITY SCHOOLS

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2020

Fund balances - total governmental funds	\$ 7,853,824
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Certain assets used in governmental activities are not financial resources and therefore not reported in the funds.	
Capital assets not being depreciated	256,527
Capital assets being depreciated, net	21,322,616
Assets held for sale	313,000
Certain liabilities, such as bonds payable, are not due and payable in the current period therefore are not reported in the funds.	
Bonds and school loan revolving fund payable	(27,600,939)
Unamortized bond premium	(437,528)
Deferred charge on advance bond refundings, net	64,545
Accrued interest on bonds payable	(153,100)
Compensated absences	(163,798)
Certain pension and other postemployment benefit-related amounts, such as the net pension liability, net other postemployment benefit liability and deferred amounts are not due and payable in the current period or do not represent current financial and therefore are not reported in the funds.	
Net pension liability	(18,473,146)
Deferred outflows related to the net pension liability	5,104,566
Deferred inflows related to the net pension liability	(1,498,725)
Net other postemployment benefit liability	(4,012,271)
Deferred outflows related to the net other postemployment benefit liability	1,230,577
Deferred inflows related to the net other postemployment benefit liability	(1,746,251)
Net position of governmental activities	\$ (17,940,103)

The accompanying notes are an integral part of these financial statements.

EAST JACKSON COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2020

	General Fund	Debt Retirement Fund	2017 Capital Projects	Nonmajor Special Revenue Food Service Fund	Totals
Revenues					
Local sources:					
Property taxes	\$ 1,815,944	\$ 1,639,967	\$ -	\$ -	\$ 3,455,911
Interest	-	-	101,269	-	101,269
Other local revenues	1,070,522	-	-	18,791	1,089,313
Transfers from other governments	280	-	-	-	280
State sources	6,673,801	-	-	22,945	6,696,746
Federal sources	407,816	-	-	582,800	990,616
Total revenues	9,968,363	1,639,967	101,269	624,536	12,334,135
Expenditures					
Current:					
Instruction	6,569,314	-	-	-	6,569,314
Supporting services	3,249,601	-	-	-	3,249,601
Community services	4,059	-	-	-	4,059
Athletics	277,822	-	-	-	277,822
Food service	-	-	-	554,454	554,454
Capital outlay	-	-	923,503	-	923,503
Debt service:					
Principal	-	1,785,000	-	-	1,785,000
Interest and fiscal charges	-	986,633	-	-	986,633
Bond issuance costs	-	-	8,997	-	8,997
Total expenditures	10,100,796	2,771,633	932,500	554,454	14,359,383
Revenues over (under) expenditures	(132,433)	(1,131,666)	(831,231)	70,082	(2,025,248)
Other financing sources (uses)					
Issuance of long-term debt	-	4,046,992	-	-	4,046,992
Payment to refund school loan revolving fund	-	(2,916,000)	-	-	(2,916,000)
Proceeds from sale of capital assets	4,265	-	-	-	4,265
Transfers in	30,000	-	-	-	30,000
Transfers out	-	-	-	(30,000)	(30,000)
Total other financing sources (uses)	34,265	1,130,992	-	(30,000)	1,135,257
Net change in fund balances	(98,168)	(674)	(831,231)	40,082	(889,991)
Fund balances, beginning of year	757,164	136,774	7,694,616	155,261	8,743,815
Fund balances, end of year	\$ 658,996	\$ 136,100	\$ 6,863,385	\$ 195,343	\$ 7,853,824

The accompanying notes are an integral part of these financial statements.

EAST JACKSON COMMUNITY SCHOOLS

Reconciliation

Net Change in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2020

Net change in fund balances - total governmental funds \$ (889,991)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported depreciation expense.

Capital assets purchased/constructed	230,561
Depreciation expense	(890,299)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term debt in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of net position.

Issuance of long-term debt	(4,046,992)
Payment to refund school loan revolving fund	2,916,000
Principal payments on long-term debt	1,785,000
Amortization of deferred charge on advance bond refundings	(21,516)
Amortization of premium on general obligation bonds	104,253

Some 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 funds.

Change in net pension liability and related deferred amounts	(954,252)
Change in net other postemployment benefit liability and related deferred amounts	329,918
Change in accrued interest payable on bonds	(82,258)
Change in the accrual for compensated absences	26,866

Change in net position of governmental activities \$ (1,492,710)

The accompanying notes are an integral part of these financial statements.

EAST JACKSON COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenues				
Local sources:				
Property taxes	\$ 1,716,300	\$ 1,807,492	\$ 1,815,944	\$ 8,452
Other local revenues	828,296	1,078,484	1,070,522	(7,962)
Transfers from other governments	38,000	1,500	280	(1,220)
State revenue	7,259,214	6,942,393	6,673,801	(268,592)
Federal revenue	424,999	453,250	407,816	(45,434)
Total revenues	<u>10,266,809</u>	<u>10,283,119</u>	<u>9,968,363</u>	<u>(314,756)</u>
Expenditures				
Instruction:				
Basic programs	4,750,585	4,849,947	4,821,111	(28,836)
Added needs	1,768,934	1,868,791	1,748,203	(120,588)
Total instruction	<u>6,519,519</u>	<u>6,718,738</u>	<u>6,569,314</u>	<u>(149,424)</u>
Supporting services:				
Pupil	233,763	235,249	194,957	(40,292)
Instructional staff	300,466	309,624	271,402	(38,222)
General administration	336,899	332,174	330,184	(1,990)
School administration	702,615	747,411	736,413	(10,998)
Business services	168,279	174,727	173,536	(1,191)
Operations and maintenance	1,338,753	1,212,106	1,241,407	29,301
Pupil transportation	316,703	284,548	273,999	(10,549)
Central services	21,673	35,292	27,703	(7,589)
Total supporting services	<u>3,419,150</u>	<u>3,331,130</u>	<u>3,249,601</u>	<u>(81,529)</u>
Community services	13,717	6,647	4,059	(2,588)
Athletics	341,141	282,626	277,822	(4,804)
Total expenditures	<u>10,293,528</u>	<u>10,339,142</u>	<u>10,100,796</u>	<u>(238,346)</u>
Revenues under expenditures	<u>(26,719)</u>	<u>(56,023)</u>	<u>(132,433)</u>	<u>(76,410)</u>
Other financing sources				
Proceeds from sale of capital assets	-	4,265	4,265	-
Transfers in	30,000	30,000	30,000	-
Total other financing sources	<u>30,000</u>	<u>34,265</u>	<u>34,265</u>	<u>-</u>
Net change in fund balance	<u>3,281</u>	<u>(21,758)</u>	<u>(98,168)</u>	<u>(76,410)</u>
Fund balance, beginning of year	<u>757,164</u>	<u>757,164</u>	<u>757,164</u>	<u>-</u>
Fund balance, end of year	<u>\$ 760,445</u>	<u>\$ 735,406</u>	<u>\$ 658,996</u>	<u>\$ (76,410)</u>

The accompanying notes are an integral part of these financial statements.

EAST JACKSON COMMUNITY SCHOOLS

Statement of Fiduciary Assets and Liabilities - Agency Fund

June 30, 2020

	Agency Fund
Assets	
Cash and cash equivalents	\$ 88,877
Due from other governments	<u>2,000</u>
Total assets	<u><u>\$ 90,877</u></u>
Liabilities	
Accounts payable	\$ 2,156
Due to student groups and activities	<u>88,721</u>
Total liabilities	<u><u>\$ 90,877</u></u>

The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

East Jackson Community Schools (the "District") has followed the guidelines of the Governmental Accounting Standards Board and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

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 non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. 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.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for reimbursement-based grants that use one year. 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, are recorded only when payment is due.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

Property taxes received, intergovernmental revenue, and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is used to account for all financial resources not accounted for and reported in another fund.

The *debt retirement fund* is used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

The *2017 capital projects fund* is used to account for financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

The District reports the following fund type:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects that comprise, or are expected to comprise a substantial portion of the fund's total reported inflows.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Deposits and Investments

The 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.

The District's investments in the Michigan Liquid Asset Fund (MILAF) cash management pool are recorded at amortized cost.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non current portion of interfund loans).

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

Inventory

Inventory is valued at the lower of cost (first in, first out) or market. Inventory in the general fund and special revenue fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net position.

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000, computer and associated computer equipment costing more than \$1,000, and electronic equipment costing more than \$500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition cost at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The District does not have infrastructure-type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Asset	Years
Buildings and improvements	25-50
Equipment and furniture	5-20
Vehicles	8-10

Deferred Outflows of Resources

In addition to assets, the statement of financial 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 / expenditure) until then. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District also reports deferred outflows of resources related to the net pension liability and the net other postemployment benefit liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

Compensated Absences

The liability for compensated absences reported in the government-wide statements 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.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

Salaries Payable and Accrued Employee Benefits

A liability is recorded at June 30, 2020 for those amounts owed to teachers and other employees of the District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year. The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for employee health insurances for the months of July and August. The District pays these insurances for this period as a part of the compensation for services rendered in the preceding school year.

Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types generally 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, when incurred.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial 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 one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District's deferred inflows of resources relate to pension and other postemployment benefit liabilities.

Fund Equity

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance*, if applicable, is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action if the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. The District reports *assigned fund balance*, if applicable, for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the general fund and for negative amounts in other funds. The District reported no committed or assigned fund balances.

When the District incurs an expenditure for purposes for which various fund balance classification can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the District.

Pensions and Other Postemployment Benefits

For purposes of measuring the net pension liability, the net other postemployment benefit liability, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pension and other postemployment benefit expense, information about the fiduciary net position of the plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue fund. All annual appropriations lapse at fiscal year end.

The general and special revenue fund are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Board of Education. The budgets for the general and special revenue funds are adopted on an activity basis.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

3. ACCOUNTABILITY AND COMPLIANCE

Excess of Expenditures Over Appropriations

During the year ended June 30, 2020, the District incurred certain expenditures in excess of the amounts appropriated as follows:

	Final Budget	Actual	Over Budget
General fund			
Supporting services -			
Operations and maintenance	\$ 1,212,106	\$ 1,241,407	\$ 29,301

2017 Capital Projects Fund Compliance

The 2017 Capital Projects Fund records capital project activities funded with proceeds from the 2017 and 2019 building and site bonds. For these activities, the District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

4. DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown on the Statement of Net Position and Statement of Fiduciary Assets and Liabilities follows:

Statement of Net Position		
Cash and cash equivalents		\$ 7,683,666
Statement of Fiduciary Assets and Liabilities		
Cash and cash equivalents		<u>88,877</u>
Total		<u><u>\$ 7,772,543</u></u>
Deposits and investments		
Bank deposits (checking and savings accounts)		\$ 730,346
Investments		7,041,211
Cash on hand		<u>986</u>
Total		<u><u>\$ 7,772,543</u></u>

Statutory Authority

State statutes authorize the District to invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

(b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

(c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

(d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

(e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.

(f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

The District chooses to disclose its investments by specifically identifying each. At year end, the District had the following investments:

Investment	Maturity	Amortized Cost	Rating
Michigan Liquid Asset Fund (MILAF) - Max class	n/a	<u>\$ 7,041,211</u>	S&P - AAAm

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All investments held at year-end are reported above.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$520,711 of the District's bank balance of \$770,711 was exposed to custodial credit risk because it was uninsured and uncollateralized.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk as these investments are uncategorized as to risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets not being depreciated -					
Land	\$ 256,527	\$ -	\$ -	\$ -	\$ 256,527
Capital assets being depreciated:					
Buildings and improvements	30,343,433	-	-	-	30,343,433
Equipment and furniture	5,695,331	5,450	(75,000)	-	5,625,781
Vehicles	1,058,055	225,111	-	-	1,283,166
Total capital assets being depreciated	37,096,819	230,561	(75,000)	-	37,252,380
Less accumulated depreciation for:					
Buildings and improvements	(9,789,521)	(551,134)	-	-	(10,340,655)
Equipment and furniture	(4,686,007)	(257,238)	75,000	-	(4,868,245)
Vehicles	(638,937)	(81,927)	-	-	(720,864)
Total accumulated depreciation	(15,114,465)	(890,299)	75,000	-	(15,929,764)
Total capital assets being depreciated, net	21,982,354	(659,738)	-	-	21,322,616
Governmental activities capital assets, net	\$ 22,238,881	\$ (659,738)	\$ -	\$ -	\$ 21,579,143

Depreciation expense of \$890,299 was charged to the function "unallocated depreciation", and was not allocated to other functions.

Robinson and Memorial Elementary Schools are currently vacant and listed for sale. As such, the building and related land are reported as assets held for sale on the government-wide statement of net position.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

6. PAYABLES

Accounts payable, accrued liabilities, and notes payable as of year end for the District's individual funds are as follows:

	General Fund	Debt Retirement Fund	2017 Capital Projects	Nonmajor Governmental Funds	Total
Fund Financial Statements					
Accounts payable	\$ 11,582	\$ 5,000	\$ 6,605	\$ 1,267	\$ 24,454
Salaries and retirement payable	961,041	-	-	4,724	965,765
State aid note payable	86,829	-	-	-	86,829
	<u>\$ 1,059,452</u>	<u>\$ 5,000</u>	<u>\$ 6,605</u>	<u>\$ 5,991</u>	<u>1,077,048</u>
Government-wide Financial Statements					
Accrued interest on bonds payable					<u>153,100</u>
					<u>\$ 1,230,148</u>

7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

At June 30, 2020, interfund receivables and payables consisted of the following:

	Due From	Due To
General fund	\$ 225,796	\$ -
2017 capital projects fund	-	199,292
Nonmajor governmental funds	-	26,504
	<u>\$ 225,796</u>	<u>\$ 225,796</u>

The District often reports interfund balances between many of its funds. These interfund balances result primarily 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.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

At June 30, 2020, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General fund	\$ 30,000	\$ -
Nonmajor governmental funds	-	30,000
	<u>\$ 30,000</u>	<u>\$ 30,000</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. For the year ended June 30, 2020, the District transferred \$30,000 from the food service fund to the general fund for indirect costs.

8. LONG-TERM DEBT

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2020:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
General obligation bonds	\$ 25,330,000	\$ 2,995,000	\$ (1,785,000)	\$ 26,540,000	\$ 1,700,000
Direct borrowings -					
School loan revolving fund	2,880,032	1,096,907	(2,916,000)	1,060,939	-
Unamortized bond premium	541,781	-	(104,253)	437,528	104,253
Compensated absences	190,664	45,721	(72,587)	163,798	31,485
Total	<u>\$ 28,942,477</u>	<u>\$ 4,137,628</u>	<u>\$ (4,877,840)</u>	<u>\$ 28,202,265</u>	<u>\$ 1,835,738</u>

Compensated absences are generally liquidated by the general fund.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

Bonds payable consist of the following issues:

General Obligation Bonds

\$995,000 2009 Building and Site Bonds, due in annual installments of \$40,000 to \$125,000 through 2021, interest at 3.00% - 4.35%	\$ 125,000
\$13,610,000 2014 Building and Site Bonds, due in annual installments of \$150,000 to \$995,000 through 2039, interest at 2.00% - 5.00%	12,710,000
\$7,850,000 2015 Refunding Bonds, due in annual installments of \$930,000 to \$1,275,000 through 2023, interest at 3.00% - 4.00%	3,170,000
\$7,690,000 2019 Building and Site Bonds, due in annual installments of \$150,000 to \$500,000 through 2044, interest at 3.00%	7,540,000
\$2,995,000 2019 Refunding Bonds (SBLF), due in annual installments of \$670,000 to \$835,000 through 2030, interest at 2.523% - 2.673%	<u>2,995,000</u>
	<u><u>\$ 26,540,000</u></u>

Annual debt service requirements to maturity for the general obligation bonds are as follows:

Year Ended June 30,	Principal	Interest	Total
2021	\$ 1,700,000	\$ 918,599	\$ 2,618,599
2022	1,230,000	854,474	2,084,474
2023	1,265,000	809,211	2,074,211
2024	795,000	762,174	1,557,174
2025	830,000	726,824	1,556,824
2026-2030	7,540,000	3,113,885	10,653,885
2031-2035	5,525,000	1,957,338	7,482,338
2036-2040	5,705,000	857,550	6,562,550
2041-4044	1,950,000	148,050	2,098,050
	<u>\$ 26,540,000</u>	<u>\$ 10,148,105</u>	<u>\$ 36,688,105</u>

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Notes to Financial Statements

The State of Michigan School Loan Funds represent amounts borrowed from the State of Michigan School Bond loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the debt service requirements on the general obligation bonds. Changes to the School Loan Funds for the year ended June 30, 2020, are as follows:

	School Loan Revolving Fund		
	Principal	Interest	Total
Beginning balance	\$ 2,749,913	\$ 130,119	\$ 2,880,032
Additions	1,051,992	44,915	1,096,907
Repayments	(2,747,201)	(168,799)	(2,916,000)
Ending balance	\$ 1,054,704	\$ 6,235	\$ 1,060,939

9. STATE AID ANTICIPATION NOTES

During the year, the District financed some of its operations through the issuance of State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly, are recorded as liabilities of the respective funds from which they were issued. At year end, notes outstanding consisted of \$86,829, due on August 20, 2020, with interest at 1.3%. Short-term note activity for the year ended June 30, 2020, was as follows:

General fund

State Aid Anticipation Notes:

Beginning balance	\$ 718,113
Additions	607,800
Reductions	(1,239,084)
Ending balance	\$ 86,829

10. NET INVESTMENT IN CAPITAL ASSETS

As of June 30, 2020, the composition of net investment in capital assets was comprised of the following:

	Governmental Activities
Capital assets:	
Capital assets not being depreciated	\$ 256,527
Capital assets being depreciated, net	21,322,616
	<u>21,579,143</u>
Related debt:	
Bonds payable	26,540,000
Less: school bond loan fund refunding	(2,995,000)
Unamortized bond premium	437,528
Unamortized deferred charge on advance bond refundings	(64,545)
Unspent bond proceeds	(6,863,385)
	<u>17,054,598</u>
Net Investment in capital assets	\$ 4,524,545

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

11. RISK MANAGEMENT

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

12. PROPERTY TAXES

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied on December 1 by township governments whose boundaries include property within the District and are due on February 14. Delinquent real taxes are advanced to the District by the Revolving Tax Funds of the counties involved.

13. PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS

Plan Description

The Michigan Public School Employees' Retirement System (the "System" or MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "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 at the ORS website at www.michigan.gov/orsschools.

Pension Benefits Provided

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, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. 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.

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Notes to Financial Statements

A DB member 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.

Participants in the defined contribution plan consist of one of the following: (1) members who worked for a Michigan public school on or after September 4, 2012 and elected to be enrolled in the defined contribution plan; (2) members who elected to transfer from the defined benefit plan to the defined contribution plan under the reform (P.A. 300) of 2012; or (3) members who worked for a Michigan public school on or after February 1, 2018 and did not elect participation in the Pension Plus 2 plan. Members who worked for a Michigan public school on or after September 4, 2012 and elected to be enrolled in the defined contribution plan receive a 100% match of the member contribution rate up to a maximum of 3% based on the member's gross earnings. Additionally, there is a mandatory employer contribution of 4% of the member's gross earnings for MPERS members who elected to convert from a Basic or MIP benefit plan to the defined contribution benefit plan. Members electing the Pension Plus or Pension Plus 2 benefit plan receive a 50% match of the member's contribution percent up to a maximum of 1% based on the member's gross earnings. Effective October 1, 2017, there is a mandatory employer contribution of 4% of the member's gross earnings for members who elect the Defined Contribution benefit plan. The employer must match 100% of the employee contribution for any member who elected the Personal Healthcare Fund up to a maximum of 2% of the member's gross earnings. For all members with a Personal Health Care Fund (PHF), the first 2% of DC contributions must go into the PHF and must be matched 100% by the employer.

Other Postemployment Benefits Provided

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% beginning January 1, 2013; 90% 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.

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Notes to Financial Statements

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% 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% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

Contributions

Employers 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, 2018 valuation will be amortized over a 20-year period beginning October 1, 2018 and ending September 30, 2038.

The table below summarizes pension contribution rates in effect for fiscal year 2020:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	18.25% - 19.41%
Member Investment Plan (MIP)	3.00% - 7.00%	18.25% - 19.41%
Pension Plus	3.00% - 6.40%	16.46%
Pension Plus 2	6.20%	19.59%
Defined Contribution	0.00%	13.39%

For the year ended June 30, 2020, required and actual contributions from the District to the pension plan were \$1,505,597, which included \$615,969, the amount received from the State and remitted to the System to fund the MPSERS unfunded actuarial accrued liability ("UAAL") stabilization rate.

The table below summarizes OPEB contribution rates in effect for fiscal year 2020:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	7.93% - 8.09%
Personal Healthcare Fund (PHF)	0.00%	7.57%

For the year ended June 30, 2020, required and actual contributions from the District to the OPEB plan were \$379,699.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

The table below summarizes defined contribution rates in effect for fiscal year 2020:

Benefit Structure	Member Rates	Employer Rates
Defined Contribution	0.00% - 3.00%	0.00% - 7.00%
Personal Healthcare Fund (PHF)	0.00% - 2.00%	0.00% - 2.00%

For the year ended June 30, 2020, required and actual contributions from the District for those members with a defined contribution benefit were \$42,704.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2020, the District reported a liability of \$18,473,146 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2018. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2019, the District's proportion was 0.05578%, which was a decrease of 0.00049% from its proportion measured as of September 30, 2018.

For the year ended June 30, 2020, the District recognized pension expense of \$2,453,134. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ 82,803	\$ 77,031	\$ 5,772
Changes in assumptions	3,617,055	-	3,617,055
Net difference between projected and actual earnings on pension plan investments	-	592,033	(592,033)
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,599	829,661	(827,062)
	<u>3,702,457</u>	<u>1,498,725</u>	<u>2,203,732</u>
District contributions subsequent to the measurement date	<u>1,402,109</u>	<u>-</u>	<u>1,402,109</u>
Total	<u><u>\$ 5,104,566</u></u>	<u><u>\$ 1,498,725</u></u>	<u><u>\$ 3,605,841</u></u>

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Notes to Financial Statements

The \$1,402,109 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2021	\$ 781,729
2022	662,093
2023	525,784
2024	<u>234,126</u>
Total	<u>\$ 2,203,732</u>

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2020, the District reported a liability of \$4,012,271 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2018. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2019, the District's proportion was 0.05590% which was an increase of 0.00038% from its proportion measured as of September 30, 2018.

For the year ended June 30, 2020, the District recognized OPEB expense of \$52,107. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 1,472,216	\$ (1,472,216)
Changes in assumptions	869,378	-	869,378
Net difference between projected and actual earnings on OPEB plan investments	-	69,775	(69,775)
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>27,692</u>	<u>204,260</u>	<u>(176,568)</u>
	897,070	1,746,251	(849,181)
District contributions subsequent to the measurement date	<u>333,507</u>	-	<u>333,507</u>
Total	<u>\$ 1,230,577</u>	<u>\$ 1,746,251</u>	<u>\$ (515,674)</u>

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Notes to Financial Statements

The \$333,507 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Amount
2021	\$ (237,308)
2022	(237,308)
2023	(202,487)
2024	(126,323)
2025	(45,755)
Total	\$ (849,181)

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 of 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. The total pension and OPEB liabilities in the September 30, 2018 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	2.75%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	6.80%
Pension Plus plan (hybrid)	6.80%
Pension Plus 2 plan (hybrid)	6.00%
OPEB plans	6.95%
Projected salary increases	2.75% - 11.55%, including wage inflation at 2.75%
Cost of living adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	7.5% Year 1 graded to 3.5% Year 12
Mortality	RP-2014 Male and Female Employee Annuitant Mortality Tables, adjusted for mortality improvements using projection scale MP-2017 from 2006. For retirees, the tables were scaled by 82% for males and 78% for females. For active members, 100% of the table rates were used for both males and females
Other OPEB assumptions:	
Opt-out assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt-out of the retiree health plan
Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
Coverage election at retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents

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Notes to Financial Statements

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. The total pension and OPEB liabilities as of September 30, 2019, are based on the results of an actuarial valuation date of September 30, 2018, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.4977 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.7101 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

Long-term Expected Return on Pension Plan Assets

The long-term expected rate of return on pension 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 pension 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 pension plan's target asset allocation as of September 30, 2019, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.50%	1.54%
Private equity pools	18.00%	8.60%	1.55%
International equity pools	16.00%	7.30%	1.17%
Fixed income pools	10.50%	1.20%	0.13%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.40%	0.84%
Short-term investment pools	2.00%	0.08%	0.00%
	<u>100.00%</u>		5.65%
Inflation			2.30%
Risk adjustment			<u>-1.15%</u>
Investment rate of return			<u>6.80%</u>

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

Long-term Expected Return on OPEB Plan Assets

The long-term expected rate of return on OPEB 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 OPEB 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 OPEB plan's target asset allocation as of September 30, 2019, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.50%	1.54%
Private equity pools	18.00%	8.60%	1.55%
International equity pools	16.00%	7.30%	1.17%
Fixed income pools	10.50%	1.20%	0.13%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.40%	0.84%
Short-term investment pools	2.00%	0.08%	0.00%
	<u>100.00%</u>		5.65%
Inflation			2.30%
Risk adjustment			<u>-1.00%</u>
Investment rate of return			<u>6.95%</u>

Rate of Return

For the fiscal year ended September 30, 2019, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was 5.14% and 5.37%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

Discount Rate

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan, both of which are hybrid plans provided through non-university employers only) and a discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on pension and OPEB plan investments of 6.80% (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan) and 6.95%, respectively. The projection of cash flows used to determine these discount rates 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 plan's 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.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.80% (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan), as well as what the 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% Decrease (5.80% / 5.80% / 5.00%)	Current Discount Rate (6.80% / 6.80% / 6.00%)	1% Increase (7.80% / 7.80% / 7.00%)
District's proportionate share of the net pension liability	\$ 24,016,272	\$ 18,473,146	\$ 13,877,704

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 6.95%, as well as what the 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% Decrease (5.95%)	Current Discount Rate (6.95%)	1% Increase (7.95%)
District's proportionate share of the net OPEB liability	\$ 4,921,653	\$ 4,012,271	\$ 3,248,642

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

The following presents the District's proportionate share of the net OPEB liability calculated using the assumed trend rates, as well as what the 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% Decrease (6.50%)	Current Healthcare Cost Trend Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net OPEB liability	\$ 3,216,268	\$ 4,012,271	\$ 4,921,545

Pension and OPEB Plans Fiduciary Net Position

Detailed information about the pension and OPEB plan's fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at www.michigan.gov/orsschools.

Payable to the Pension Plan

At June 30, 2020, the District reported a payable of \$215,272 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2020.

Payable to the OPEB Plan

At June 30, 2020, the District reported a payable of \$43,024 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2020.

14. ADDITIONAL PENSION BENEFITS

Per the Agreement by and between the East Jackson Education Association and East Jackson Community Schools, in the District's appreciation for services to the District, a terminal leave payment of 0.25% per year of the retiring year's pay, not to exceed a maximum of 5%, will be paid to all teachers qualifying for retirement under the Michigan Public School Employee Retirement System, upon retirement, provided this teacher shall have been employed in the District for ten years or more. Periods of unpaid leave including workers compensation and layoff will not constitute a disruption in service but will not be counted. Management has determined that this potential liability is not material to the financial statements as a whole.

EAST JACKSON COMMUNITY SCHOOLS

■ Notes to Financial Statements

15. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The extent of the ultimate impact of the pandemic on the District's operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on employees, vendors, and taxpayers, all of which cannot be reasonably predicted at this time. In addition, it will continue to place additional demands on the District as it determines the appropriate methods to deliver education to students in a safe environment. While management reasonably expects the COVID-19 outbreak to negatively impact the District's financial position, changes in financial position, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.

16. SUBSEQUENT EVENTS

State Aid Note

On August 20, 2020, the District issued state aid note Series 2020A-1 in the amount of \$500,000 with an interest rate of 0.70%, which the District will pay in set asides beginning in January 2020 through July 2020, maturing on August 20, 2021. On August 20, 2020, the District also issued state aid note 2020A-2 in the amount of \$400,000 with an interest rate of 0.25%, which is due August 20, 2021.



REQUIRED SUPPLEMENTARY INFORMATION

EAST JACKSON COMMUNITY SCHOOLS

Required Supplementary Information

MPSER Cost-Sharing Multiple-Employer Plan

Schedule of the District's Proportionate Share of the Net Pension Liability

	Year Ended June 30,		
	2020	2019	2018
District's proportionate share of the net pension liability	\$ 18,473,146	\$ 16,915,763	\$ 15,166,004
District's proportion of the net pension liability	0.05578%	0.05627%	0.05852%
District's covered payroll	\$ 4,887,866	\$ 4,727,271	\$ 4,684,289
District's proportionate share of the net pension liability as a percentage of its covered payroll	377.94%	357.83%	323.76%
Plan fiduciary net position as a percentage of the total pension liability	60.31%	62.36%	64.21%

See notes to required supplementary information.



Year Ended June 30,		
2017	2016	2015

\$ 15,880,943 \$ 15,527,622 \$ 13,871,772

0.06365% 0.06357% 0.06297%

\$ 5,389,315 \$ 5,301,159 \$ 4,875,576

294.67% 292.91% 284.52%

63.27% 63.17% 66.20%

EAST JACKSON COMMUNITY SCHOOLS

Required Supplementary Information

MPSER Cost-Sharing Multiple-Employer Plan

Schedule of the District's Pension Contributions

	Year Ended June 30,		
	2020	2019	2018
Statutorily required contribution	\$ 1,505,597	\$ 1,470,842	\$ 1,589,578
Contributions in relation to the statutorily required contribution	<u>(1,505,597)</u>	<u>(1,470,842)</u>	<u>(1,589,578)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 4,765,940	\$ 4,824,798	\$ 4,628,406
Contributions as a percentage of covered payroll	31.59%	30.49%	34.34%

See notes to required supplementary information.



Year Ended June 30,		
2017	2016	2015
\$ 1,385,456	\$ 1,401,826	\$ 1,239,586
<u>(1,385,456)</u>	<u>(1,401,826)</u>	<u>(1,239,586)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 4,865,554	5,216,701	\$ 4,835,066
28.47%	26.87%	25.64%

EAST JACKSON COMMUNITY SCHOOLS

Required Supplementary Information

MPSER Cost-Sharing Multiple-Employer Plan

Schedule of the District's Proportionate Share of the Net Other Postemployment Benefit (OPEB) Liability

	Year Ended June 30,		
	2020	2019	2018
District's proportionate share of the net OPEB liability	\$ 4,012,271	4,413,501	\$ 5,217,193
District's proportion of the net OPEB liability	0.05590%	0.05552%	0.05891%
District's covered payroll	\$ 4,887,866	\$ 4,727,271	\$ 4,684,289
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	82.09%	93.36%	111.38%
Plan fiduciary net position as a percentage of the total OPEB liability	48.46%	42.95%	36.39%

See notes to required supplementary information.

EAST JACKSON COMMUNITY SCHOOLS

Required Supplementary Information

MPSER Cost-Sharing Multiple-Employer Plan

Schedule of the District's Other Postemployment Benefit Contributions

	Year Ended June 30,		
	2020	2019	2018
Statutorily required contribution	\$ 379,699	\$ 377,739	\$ 242,665
Contributions in relation to the statutorily required contribution	<u>(379,699)</u>	<u>(377,739)</u>	<u>(242,665)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 4,765,940	\$ 4,824,798	\$ 4,628,406
Contributions as a percentage of covered payroll	7.97%	7.83%	5.24%

See notes to required supplementary information.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Required Supplementary Information

Pension Information

GASB 68 was implemented in fiscal year 2015. The pension plan schedules are being built prospectively. Ultimately, 10 years of date will be presented.

The amounts presented in the schedule of the District's Proportionate Share of the Net Pension Liability were determined as of September 30 of the preceding year (the plan year).

The significant changes in assumptions for each of the fiscal years ended June 30 were as follows:

- 2020 - The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.80% for the MIP and Basic plans, 6.80% for the Pension Plus Plan, and 6.00% for the Pension Plus 2 Plan.
- 2019 - The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.05% for the MIP and Basic plans, 7.00% for the Pension Plus plan, and 6.00% for the Pension Plus 2 plan.
- 2018 - The discount rate used in the September 30, 2016 actuarial valuation decreased to 7.50% for the MIP and Basic plans and 7.00% for the Pension Plus plan.

OPEB Information

GASB 75 was implemented in fiscal year 2018. The OPEB plan schedules are being built prospectively. Ultimately, 10 years of date will be presented.

The amounts presented in the schedule of the District's Proportionate Share of the Net OPEB Liability were determined as of September 30 of the preceding year (the plan year).

The significant changes in assumptions for each of the fiscal years ended June 30 were as follows:

- 2020 - The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.95%.
- 2019 - The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.15%.

SINGLE AUDIT ACT COMPLIANCE

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INDEPENDENT AUDITORS' REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE

October 29, 2020

Board of Education
East Jackson Community Schools
Jackson, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *East Jackson Community Schools* (the "District") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 29, 2020, 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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 expenditure of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Rehmann Robson LLC

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EAST JACKSON COMMUNITY SCHOOLS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number
U.S. Department of Agriculture			
Child Nutrition Cluster:			
School Breakfast Program 2018-2019	10.553	MDE	191970
School Breakfast Program 2019-2020	10.553	MDE	201970
National School Lunch Program 2018-2019	10.555	MDE	191960
National School Lunch Program 2019-2020	10.555	MDE	201960
COVID-19 - Unanticipated School Closure 2019-2020	10.555	MDE	200902
After School Snacks 2018-2019	10.555	MDE	191980
After School Snacks 2019-2020	10.555	MDE	201980
Entitlement Commodities (noncash)	10.555	MDE	n/a
SFSP Operating	10.559	MDE	190900
SFSP Operating	10.559	MDE	191900
Total U.S. Department of Agriculture			
U.S. Department of Education			
Title I:			
Project 191530-1819 Regular 18-19	84.010	MDE	191530-1819
Project 201530-1920 Regular 19-20	84.010	MDE	201530-1920
McKinney Vento Grant - 19-20	84.196	JCISD	n/a
Title II, Part A:			
Project 190520-1819 Regular 18-19	84.367	MDE	190520-1819
Project 200520-1920 Regular 19-20	84.367	MDE	200520-1920
Title IV, Part A SSAE -			
Project 190750-1819 Regular 18-19	84.424A	MDE	190750-1819
Project 200750-1920 Regular 19-20	84.424A	MDE	200750-1920
Total U.S. Department of Education			
U.S. Department of Health and Human Services			
Medicaid Cluster -			
Medical Assistance Program	93.778	JCISD	n/a
Total Federal Financial Assistance			

See notes to schedule of expenditures of federal awards.

Approved Awards Amount	Expenditures (Memo Only) Prior Year(s)	Accrued (Unearned) Revenue at July 1, 2019	Federal Funds / Payments In-Kind Received	Expenditures Year Ended June 30, 2020	Adjustments	Accrued (Unearned) Revenue at June 30, 2020
\$ 167,586	\$ 140,262	\$ -	\$ 27,324	\$ 27,324	\$ -	\$ -
94,640	-	-	94,640	94,640	-	-
		-	121,964	121,964	-	-
372,987	314,274	-	58,713	58,713	-	-
206,000	-	-	206,000	206,000	-	-
148,390	-	-	148,390	148,390	-	-
1,740	-	-	1,740	1,740	-	-
4,765	-	-	4,765	4,765	-	-
35,034	-	-	35,034	35,034	-	-
		-	454,642	454,642	-	-
7,629	2,099	2,099	7,629	5,530	-	-
664	-	-	664	664	-	-
		2,099	8,293	6,194	-	-
		2,099	584,899	582,800	-	-
341,339	313,762	25,492	38,577	19,227	(6,142)	-
347,292	-	-	250,444	326,100	-	75,656
		25,492	289,021	345,327	(6,142)	75,656
2,000	-	-	543	543	-	-
98,136	96,885	7,642	4,948	1,251	(3,945)	-
62,288	-	-	23,492	23,802	-	310
		7,642	28,440	25,053	(3,945)	310
20,367	2,088	5,222	-	-	(5,222)	-
36,184	-	-	33,632	33,632	-	-
		5,222	33,632	33,632	(5,222)	-
		38,356	351,636	404,555	(15,309)	75,966
3,261	-	-	3,261	3,261	-	-
		\$ 40,455	\$ 939,796	\$ 990,616	\$ (15,309)	\$ 75,966

EAST JACKSON COMMUNITY SCHOOLS

Notes to Schedule of Expenditures of Federal Awards

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of East Jackson Community Schools (the "District") under programs of the federal government for the year ended June 30, 2020. 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 District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such 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, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been included and all grant requirements have been met.

The Schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this schedule.

2. 10% DE MINIMIS COST RATE

For purposes of charging indirect costs to federal awards, the District has not elected to use the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

3. PASS-THROUGH AGENCIES

The District receives certain federal grant as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDE	Michigan Department of Education
JCISD	Jackson County Intermediate School District

4. ADJUSTMENTS

The Schedule of Expenditures of Federal Awards included adjustments to prior year expenditures of \$15,309.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

October 29, 2020

Board of Education
East Jackson Community Schools
Jackson, 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 *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 *East Jackson Community Schools* (the "District"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 29, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2020-001 and -003 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2020-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

East Jackson Community Schools' Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 District'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.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

October 29, 2020

Board of Education
East Jackson Community Schools
Jackson, Michigan

Report on Compliance for the Major Federal Program

We have audited the compliance of *East Jackson Community Schools* (the "District") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2020. The District's major federal program is identified in the summary of auditors' 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.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program 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 the major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Other Matter

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 item 2020-004. Our opinion on the major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Management of the 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 the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 the 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2020-004 that we consider to be a significant deficiency.

The District’s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Purpose of this Report

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.

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EAST JACKSON COMMUNITY SCHOOLS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2020

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? X yes none reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes no

Identification of major programs and type of auditors' report issued on compliance for each major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Opinion</u>
10.553, 10.555, & 10.559	Child Nutrition Cluster	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes X no

EAST JACKSON COMMUNITY SCHOOLS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

SECTION II - FINANCIAL STATEMENT FINDINGS

2020-001 - Material Audit Adjustments (Repeat)

Finding Type. Material weakness in internal controls over financial reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. During our audit, we identified and proposed material adjustments (which were approved and posted by management) to adjust the District's general ledger to the appropriate balances.

Cause. This condition was the result of dependence on external auditors, who by definition cannot be a part of the District's internal control, to make adjustments to the general ledger and reconcile certain balance sheet accounts to their underlying detail.

Effect. As a result of this condition, the District's accounting records were initially misstated as follows:

- A prior year accrual was not reversed. As a result, the 2017 capital projects fund accounts payable and expenditures were initially overstated by approximately \$71,000.
- Inventory was not adjusted to the proper unit prices. As a result, food service fund inventory and expenditures were initially understated by approximately \$11,000.
- The District did not record the 2019 refunding bonds activity in their general ledger. As a result, debt service fund other financing sources were initially understated by approximately \$3.0 million, debt service fund other financing uses were initially understated by approximately \$2.9 million, and debt service fund expenditures were initially understated by approximately \$79,000.

Recommendation. For the current year, no further action is required as the adjustments have been posted. In future periods, we recommend that management implement procedures to ensure that all general ledger accounts are appropriately reconciled and adjusted at year end.

View of Responsible Official. The LEA Business Manager will review General Ledger Accounts detail on a monthly basis and make sure the accounts are reconciled. Inventory unit prices will be based off of what was used in the previous year's entry and not what is submitted by the Food Service Director.

Responsible Official. LEA Business Manager

EAST JACKSON COMMUNITY SCHOOLS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

SECTION II - FINANCIAL STATEMENT FINDINGS

2020-002 - Preparation of Schedule of Expenditures of Federal Awards (Repeat)

Finding Type. Significant deficiency in internal controls over financial reporting.

Criteria. The Uniform Guidance requires that the District identify "in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any." In addition, the District is required to prepare appropriate financial statements, including the schedule of expenditures of Federal awards.

Condition. While management was able to provide a schedule of expenditures of federal awards during the audit fieldwork, the Schedule did not agree to the trial balance and adjustments were ultimately required.

Cause. This condition was the result of dependence on external auditors, who by definition cannot be a part of the internal control.

Effect. As a result of this condition, the schedule of expenditures of federal awards initially presented overstated prior year receivables by approximately \$3,000, understated expenditures of Federal awards by approximately \$38,000, and initially reported unearned revenue of approximately \$93,000 instead of receivables of approximately \$76,000. Additionally, adjustments to the schedule of expenditures of federal awards of approximately \$15,000 were required to eliminate prior year receivables the District failed to draw, thus losing revenues.

Recommendation. We recommend that the District clearly assign the responsibility for grant reporting and preparation and review of the SEFA each year. All grant financial reports should be reviewed centrally by a member of management prior to submission, and compared against the District's accounting records. Incoming grant receipts should similarly be reviewed to determine the appropriate program for coding. Differences between amounts requested, amounts received, and/or amounts reported on the District's accounting records should be promptly investigated and resolved.

View of Responsible Official. The SEFA will be prepared by the LEA Business Manager and reviewed by the JCISD Assistant Director of Finance to make sure that federal awards agree with the District's Trial Balance. The SEFA will be submitted to the audit team before the audit begins.

Responsible Official. LEA Business Manager

EAST JACKSON COMMUNITY SCHOOLS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2020

SECTION II - FINANCIAL STATEMENT FINDINGS

2020-003 - Review and Approval of Year-end Schedules (Repeat)

Finding Type. Material weakness in internal controls over financial reporting.

Criteria. The timely preparation and issuance of financial statements in accordance with generally accepted accounting principles requires a coordinated effort between management and the external auditors, and places the burden on the auditee to properly prepare for the audit, including timely closing of the accounting records, preparation of workpapers to support the significant account balances and obtaining the necessary documents needed by the auditors to perform their work.

Condition. The District has certain balance sheet accounts that are adjusted and balanced only at year-end for external reporting purposes. Some of these balances are long-term in nature and not reported in the District's fund financial statements. Even though these amounts are not recorded in the general ledger, the information necessary for properly reporting these items must be provided by management for inclusion in the audited financial statements. These schedules include calculations and estimate assumptions for capital assets, debt, compensated absences and retirement payouts, accrued payroll, inventory, receivables, unearned revenues, the schedule of expenditures of federal awards, and the trial balance as a whole.

Cause. This condition was caused by management oversight.

Effect. As a result of this condition, the District was unable to provide clear reconciliations on many balances, and adjustments, which were approved and posted by management, were required to properly state the balances. Additionally, multiple versions of the capital asset files were provided, as the schedule did not properly rollforward from the prior year, depreciation expense was undercalculated for two assets and overcalculated for seventy-four assets (resulting in a negative net book values), and no disposals were initially noted.

Recommendation. We recommend that the District subject all year-end schedules that are used in financial reporting to an independent review and approval process by an individual with a high level of understanding regarding financial reporting requirements. This review should be documented and retained as evidence of the control.

View of Responsible Official. The LEA Business Manager will review the balance sheet accounts detail monthly and the JCISD Assistant Director of Finance will review balance sheet accounts detail on a quarterly basis. The LEA Business Manager and the JCISD Assistant Director of Finance will review the Capital Asset Schedule by June 30th.

Responsible Official. LEA Business Manager

EAST JACKSON COMMUNITY SCHOOLS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2020-004 - Procurement, Suspension and Debarment (Repeat)

Finding Type. Immaterial noncompliance; Significant deficiency in internal control over compliance (Procurement, Suspension and Debarment)

Program. Child Nutrition Cluster; U.S. Department of Agriculture; CFDA Numbers 10.553, 10.555, and 10.559; Passed through the Michigan Department of Education; Award Numbers 191970, 201971, 191960, 201960, 200902, 191980, 201980, 190900, and 191900.

Criteria. A recipient of federal awards is required to determine that vendors being paid with federal funds are not suspended or debarred from doing business with the government. Such procedures are required whenever the amount disbursed to a single vendor in a given fiscal year is expected to be at least \$25,000.

Condition. The District did not verify that any of their vendors over \$25,000 were not suspended or debarred from doing business with the District.

Cause. This condition was caused by a management oversight in including such language in their policies and procedures.

Effect. As a result of this condition, the District was exposed to the risk that disbursements of federal awards would be made to vendors suspended or debarred by the federal government.

Questioned Costs. No costs were questioned as a result of this finding.

Recommendation. We recommend that the District execute revised policies and procedures to include appropriate language regarding suspension and debarment.

View of Responsible Official. The LEA Business Manager will submit all new vendors to sam.gov and any vendor paid with federal dollars. Business Manager will keep a printed copy of the sam.gov documentation as proof this was completed.

Responsible Official. LEA Business Manager, Food Service Director, and Superintendent



EAST JACKSON COMMUNITY SCHOOLS

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2020

Finding 2019-001 - Material Audit Adjustments (repeat)

For the year ended June 30, 2019, several material adjustments were necessary to adjust the District's accounts payable, and compensated absences to the appropriate balances. As a result of this condition, the accounts payable balances and compensated absence schedule was initially misstated by amounts material to the financial statements. This finding has been repeated in the current year as 2020-001.

Finding 2019-002 - Material Prior Period Audit Adjustment

A material adjustment to beginning fund balance of the food service special revenue fund was necessary to account for previously unrecorded inventory. As a result of this condition, the District's accounting records were initially misstated by an amount material to the financial statements of the food service special revenue fund. This finding has been resolved.

Finding 2019-003 - Preparation of Schedule of Expenditures of Federal Awards

While management was able to provide a schedule of expenditures of federal awards during the audit fieldwork, the Schedule did not agree to the trial balance and adjustments were ultimately required. As a result of this condition, the schedule of expenditures of federal awards initially presented understated prior year receivables, current year receipts, current year expenditures, and current year receivables by approximately \$15,000, \$4,500, \$6,000, and \$22,000, respectively. Additionally, CFDA#10.559 was initially excluded from the schedule. This finding has been repeated in the current year as 2020-002.

Finding 2019-004 - Review and Approval of Year-end Schedules (Repeat)

The District has certain balance sheet accounts that are adjusted and balanced only at year-end for external reporting purposes. Some of these balances are long-term in nature and not reported in the District's fund financial statements. Even though these amounts are not recorded in the general ledger, the information necessary for properly reporting these items must be provided by management for inclusion in the audited financial statements. These schedules include calculations and estimate assumptions for capital assets, debt, compensated absences and retirement payouts, accrued payroll, inventory, receivables, and the schedule of expenditures of federal awards. As a result of this condition, the District was unable to provide clear reconciliations on many balances, and adjustments were required to properly state the balances. This finding has been repeated in the current year as 2020-003.

Finding 2019-005 - Procurement, Suspension, and Debarment

The District was unable to provide evidence that competitive bidding was performed (one of three vendors tested) or quotes were obtained (three of three vendors tested) for all purchases of goods and services that exceed the aforementioned thresholds. As a result of this condition, the procurement requirements as outlined within the District's policy were not followed. This finding has been repeated in the current year as 2020-004.

