

Armada Area Schools
Financial Statements
June 30, 2021



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Armada Area Schools
Members of the Board of Education and Administration
June 30, 2021

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Cheryl Murray	Vice President
Michele Meerschaert	Secretary
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Heather Urbanek	Business Supervisor
Josie Meyers	Business Analyst



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Independent Auditors' Report

Management and the Board of Education
Armada Area Schools
Armada, 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 Armada Area Schools, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 Armada Area Schools, as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Account Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2021, the School District adopted GASB Statement No. 84, *Fiduciary Activities*. Our opinions are not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the school district's proportionate share of the net pension liability, schedule of the school district's pension contributions, schedule of the school district's proportionate share of the net OPEB liability, and schedule of the school district's OPEB contributions identified 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Schools' basic financial statements. The other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The other supplementary information, as identified in the table of contents, 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. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 other supplementary information, as identified in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2021 on our consideration of the Armada Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Armada Area Schools' 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 Armada Area Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Flint, MI

October 27, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Armada Area Schools

Management's Discussion and Analysis

Armada Area Schools, a K-12 public school district located in Macomb and St. Clair Counties in Michigan, is in its 17th year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) and 7th year for GASB 68 with the enclosed financial statements.

The Management's discussion and Analysis, a requirement of GASB 34, is intended to be Armada Area Schools' discussion and analysis of the financial results for the fiscal year ended June 30, 2021. Generally Accepted Accounting Principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a long-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the District's operations in more detail than the district-wide financial statements by providing information about the District's most significant or major fund, the General Fund, and with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents.

Financial Section

- Basic Financial Statements
 - District-wide Financial Statements
 - Fund Financial Statements
 - Fiduciary Fund
 - Notes to Financial Statements
- Required Supplemental Information
 - Budgetary Comparison Schedules
- Other Supplemental Information
 - Combining Balance Sheet Non-major Governmental Funds
 - Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Non-major Governmental Funds

Armada Area Schools

Management's Discussion and Analysis

Reporting the District as a Whole – District-wide Financial Statements

One of the most important questions asked about the District is, "As a whole, what is the District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the District's financial statements, report information on the District as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Armada Area District's net position – the difference between assets and liabilities, as reported in the statement of net position – as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results. Many non-financial factors, such as the quality of the education provided and the safety of the schools, must be considered to assess the overall health of the District.

The statement of net position and the statement of activities report the governmental activities for the District, which encompass all of the District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundations allowance revenue), and State and federal grants finance most of these activities.

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

The District's fund financial statements provide detailed information about the most significant funds, not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, the District establishes many other funds to help it control and manage money for particular purposes, such as the Food Services and Community Enrichment Funds. Funds are also established to show that it's meeting legal responsibilities for using certain taxes, grants, and other money, including the District's four Debt Funds.

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

Armada Area Schools

Management's Discussion and Analysis

The District as a Whole

The statement of net position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2021.

	2019-2020 Governmental Activities	2020-2021 Governmental Activities
Assets		
Current and other assets	\$ 5,107,480	\$ 7,650,436
Capital assets	39,958,668	38,672,349
Total assets	<u>45,066,148</u>	<u>46,322,785</u>
Deferred outflow of resources	12,601,936	11,339,635
Total assets and deferred outflows of resources	<u>57,668,084</u>	<u>57,662,420</u>
Liabilities		
Current liabilities	2,393,138	3,416,659
Long-term liabilities	84,724,828	82,527,542
Total liabilities	<u>87,117,966</u>	<u>85,944,201</u>
Total liabilities and deferred inflows of resources	<u>92,522,214</u>	<u>91,741,027</u>
Net position		
Net investment in capital assets	(636,035)	75,538
Restricted	277,770	584,645
Unrestricted	<u>(34,495,865)</u>	<u>(34,738,790)</u>
Total net position (deficit)	<u>\$ (34,854,130)</u>	<u>\$ (34,078,607)</u>

The above analysis focuses on the net position (see Table 1).

Armada Area Schools

Management's Discussion and Analysis

The change in net position (see Table 2) of the District's governmental activities is discussed below. The District's net position was (\$34,126,626) at June 30, 2021. Total net position factors all district related debt. Capital assets, net of related debt, totaled \$75,538. This compares the original cost, less depreciation of the District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes.

The restricted amount of net position, \$0.58 million, was restricted for capital projects. The remaining amount of net position, (\$34.7) million, was unrestricted. The (\$34.7) million in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

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

	2020 Governmental Activities	2021 Governmental Activities
Revenue		
Program revenue:		
Charges for services	\$ 543,777	\$ 323,456
Operating grants	2,262,380	5,132,705
General revenue:		
Property taxes	6,653,841	7,041,177
State Aid - unrestricted	12,381,639	12,585,882
Other	165,923	83,143
Total revenue	<u>22,007,560</u>	<u>25,166,363</u>
Functions/Program Expenses		
Instruction	14,204,829	14,241,138
Support services	7,567,740	8,533,296
Food services	368,800	557,361
Community services	241,976	201,599
Interest on long-term debt	1,306,035	1,280,874
Total expenses	<u>23,689,380</u>	<u>24,814,268</u>
Change in net position	(1,681,820)	352,095
Net position (deficit) – beginning, as restated	<u>(33,172,310)</u>	<u>(34,430,702)</u>
Net position (deficit) - ending	<u>\$ (34,854,130)</u>	<u>\$ (34,078,607)</u>

Armada Area Schools

Management's Discussion and Analysis

As reported in the statement of activities, the cost of all *governmental* activities this year was \$24.8 million. Certain activities were partially funded from those who benefited from the programs - \$.32 million or by other governments and organizations that subsidized certain programs with grants and contributions - \$5.1 million. The remaining "public benefit" portion of governmental activities was funded with \$7.0 million in taxes, \$12.6 million in State foundation allowance, and with \$ 0.08 million other revenues, such as bond refunding, interest and general entitlements.

The District experienced an increase in net position of \$352,095. The assets increased primarily as a result of ongoing operations in the District.

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

The District's Funds

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

As the District completed this year, the governmental funds reported a combined fund balance of \$4.4 million; an increase of \$1.1 million from the prior year due to increase in general fund and sinking fund. The changes by major and other funds are as follows:

	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
Fund balances - Beginning of year	\$ 1,311,205	\$ 2,011,078	\$ 3,322,283
Increase (decrease)	<u>624,029</u>	<u>441,220</u>	<u>1,065,249</u>
Fund balances - End of year	<u>\$ 1,935,234</u>	<u>\$ 2,452,298</u>	<u>\$ 4,387,532</u>

In the General Fund, our principal operating fund, the fund balance increased by \$0.6 million from last year. Expenditure increases are a normal part of operations as a result of salary and benefit increases, increased costs for utilities, and other operating expenses. The district was able to function under budget in several expenditure areas including utilities, substitute teacher cost, and transportation expenses including bus fuel. The fund balance of the General Fund is available to fund costs related to allowable school operating purposes through the undesignated portion. The designated portion has specific projects and/or purposes.

Armada Area Schools

Management's Discussion and Analysis

The other major and non-major funds increased by \$0.4 million, which was primarily due to an increase in the Sinking Fund (\$0.3 million). The other non-major funds provide for services, (i.e. Food Service, Community Education), and the retirement of debt and for capital improvements had a \$0.1 million increase in fund equity. The goal of these funds is to offer programs for students and capital improvements and not develop fund equity.

General Fund Budgetary Highlights

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

There were revisions made to the original 2020-21 General Fund budget in February and June 2021. The original General Fund budget approved by the Board in June 2020 had an estimated fund equity net loss of \$0.06 million for June 30, 2021. The actual June 30, 2021 fund equity had a net increase of \$0.6 million with a total fund equity of \$1,935,234. The district operated on a minimal needs spending status most of the school year, which contributed to actual expenditures being lower than the final budget. The district also benefited financially from state and federal COVID-19 funding, staff attrition, and a higher student count than the original budget. However, the district continues to be concerned about state and federal funding, the increased cost of health care, the retirement rate, future gasoline and utility rates.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2021, the District had \$38.6 million invested in a broad range of capital assets, including land, buildings, and furniture and equipment. The previous two years are listed below.

	<u>2020</u>	<u>2021</u>
Land, buildings and improvements	\$ 58,081,607	\$ 58,102,427
Furniture and equipment	12,620,068	12,711,810
Buses and other vehicles	1,500,089	1,645,108
Less: accumulated depreciation	<u>(32,243,096)</u>	<u>(33,786,996)</u>
Total capital assets	<u>\$ 39,958,668</u>	<u>\$ 38,672,349</u>

In November 2013, the community passed a 10-year renewal on a 0.8394 mill sinking fund, and a 10-year renewal on the Headlee 18 mills. Both of these renewal issues will benefit the school district.

Armada Area Schools

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the District's 2022 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2021-22 fiscal year is 75 percent of the February 2021 and 25 percent of the October 2021 student counts. The 2021-22 budget was adopted in June 2021, based on a 25-student decrease - 1,711 total. Preliminary numbers show the District's actual blended count will be approximately 1,743 students which is above the budgeted amount. Due to the coronavirus, the district will have increased maintenance costs during the 2021-2022 school year due to all of the cleaning and disinfecting requirements. In addition, the district has hired additional teaching staff to lower class sizes, especially at the elementary level. However, the district is optimistic there will be additional ESSR funds to help offset our costs. The district has little control over revenue. Under State law, the district cannot assess additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operations. The district will amend the 2021-22 General Fund budget in the 2022 calendar year. With the slow moving economy, future student enrollment and funding will continue to be a major concern.

Since the District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue estimating conference to estimate revenues. If actual State revenues are less than their estimates, reduction to the per pupil funding allowance may be necessary. Early State funding projections indicate that there will be an increase in per pupil funding of \$589 per pupil for Armada in the 2021-22 school year. This will help to offset inflationary increases and some of the staffing cost increases. The cost of health insurance and the increase in fuel cost will still continue to be concerns. Local school communities, including Armada, will continue to work with the legislature to continue to provide adequate funding to schools. Because of the lack of funding, Armada has made over \$8.0 million in budget cuts over the last 20 years. Armada will continue to monitor all funding issues during these challenging pandemic times.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office:

Armada Area Schools
74500 Burk Street
Armada, Michigan 48005-3314

BASIC FINANCIAL STATEMENTS

Armada Area Schools
Statement of Net Position
June 30, 2021

	<u>Governmental Activities</u>
Assets	
Cash	\$ 4,695,256
Accounts receivable	201,411
Due from other governmental units	2,732,748
Prepaid items	21,021
Capital assets not being depreciated	1,187,079
Capital assets - net of accumulated depreciation	<u>37,485,270</u>
 Total assets	 <u>46,322,785</u>
 Deferred outflows of resources	
Deferred amount relating to the net pension liability	8,046,712
Deferred amount relating to the net OPEB liability	2,793,501
Deferred amount on debt refunding	<u>499,422</u>
 Total deferred outflows of resources	 <u>11,339,635</u>

See Accompanying Notes to the Financial Statements

Armada Area Schools
Statement of Net Position
June 30, 2021

	Governmental Activities
Liabilities	
Accounts payable	\$ 270,869
State aid anticipation note payable	439,847
Payroll deductions and withholdings	23,031
Accrued expenditures	823,096
Accrued salaries payable	1,042,558
Unearned revenue	817,258
Long-term liabilities	
Debt due within one year	6,015,700
Debt due in more than one year	34,232,422
Net pension liability	36,538,720
Net OPEB liability	5,740,700
Total liabilities	85,944,201
Deferred inflows of resources	
Deferred amount relating to the net pension liability	1,512,403
Deferred amount relating to the net OPEB liability	4,284,423
Total deferred inflows of resources	5,796,826
Net Position	
Net investment in capital assets	75,538
Restricted for	
Debt service	5,112
Capital projects - sinking fund	579,533
Unrestricted (deficit)	(34,738,790)
Total net position	\$ (34,078,607)

See Accompanying Notes to the Financial Statements

Armada Area Schools
Statement of Activities
For the Year Ended June 30, 2021

	Program Revenues		Net (Expense)	
Expenses	Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position	
Functions/Programs				
Governmental activities				
Instruction	\$ 14,241,138	\$ 7,081	\$ 4,395,613	\$ (9,838,444)
Supporting services	8,533,296	61,418	694,739	(7,777,139)
Food services	557,361	15,696	42,353	(499,312)
Community services	201,599	239,261	-	37,662
Interest on long-term debt	1,280,874	-	-	(1,280,874)
Total governmental activities	\$ 24,814,268	\$ 323,456	\$ 5,132,705	(19,358,107)
General revenues				
Property taxes, levied for general purposes				3,002,748
Property taxes, levied for debt service				3,606,196
Property taxes, levied for sinking fund				432,233
State aid - unrestricted				12,585,882
Interest and investment earnings				3,091
Other				80,052
Total general revenues				19,710,202
Change in net position				352,095
Net position - beginning, as restated				(34,430,702)
Net position - ending				\$ (34,078,607)

See Accompanying Notes to the Financial Statements

Armada Area Schools
Governmental Funds
Balance Sheet
June 30, 2021

	General Fund	Capital Projects	Debt Service	Nonmajor	Total
		Tech Bond	2021 Refunding	Governmental Funds	Governmental Funds
Assets					
Cash	\$ 2,326,930	\$ 1,040,270	\$ 1,177	\$ 1,326,879	\$ 4,695,256
Accounts receivable	199,326	-	-	2,085	201,411
Due from other funds	1,618	-	-	83,260	84,878
Due from other governmental units	2,732,748	-	-	-	2,732,748
Prepaid items	20,776	-	-	245	21,021
Total assets	\$ 5,281,398	\$ 1,040,270	\$ 1,177	\$ 1,412,469	\$ 7,735,314
Liabilities and Fund Balance					
Liabilities					
Accounts payable	\$ 270,869	\$ -	\$ -	\$ -	\$ 270,869
State aid anticipation note payable	439,847	-	-	-	439,847
Due to other funds	83,260	-	-	1,618	84,878
Payroll deductions and withholdings	23,031	-	-	-	23,031
Accrued expenditures	669,341	-	-	-	669,341
Accrued salaries payable	1,042,558	-	-	-	1,042,558
Unearned revenue	817,258	-	-	-	817,258
Total liabilities	3,346,164	-	-	1,618	3,347,782
Fund Balances					
Non-spendable:					
Prepaid items	20,776	-	-	245	21,021
Restricted for:					
Debt service	-	-	1,177	157,690	158,867
Capital projects	-	1,040,270	-	654,594	1,694,864
Food service	-	-	-	182,155	182,155
Committed for:					
Student/school activities	-	-	-	404,589	404,589
Assigned for:					
Community education	-	-	-	11,578	11,578
21-22 excess budgeted expenditures over revenues	252,000	-	-	-	252,000
Unassigned	1,662,458	-	-	-	1,662,458
Total fund balances	1,935,234	1,040,270	1,177	1,410,851	4,387,532
Total liabilities and fund balances	\$ 5,281,398	\$ 1,040,270	\$ 1,177	\$ 1,412,469	\$ 7,735,314

See Accompanying Notes to the Financial Statements

Armada Area Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2021

Total fund balances for governmental funds	\$ 4,387,532
Total net position for governmental activities in the statement of net position is different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	1,187,079
Capital assets - net of accumulated depreciation	37,485,270
Deferred outflows (inflows) of resources	
Deferred inflows of resources resulting from net pension liability	(1,512,403)
Deferred outflows of resources resulting from net pension liability	8,046,712
Deferred inflows of resources resulting from net OPEB liability	(4,284,423)
Deferred outflows of resources resulting from net OPEB liability	2,793,501
Deferred outflows of resources resulting from debt refunding	499,422
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(153,755)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Net pension liability	(36,538,720)
Net OPEB liability	(5,740,700)
Compensated absences	(36,558)
Bonds payable	(39,986,094)
School loan revolving fund payable	(1,484)
Other loans payable and liabilities	<u>(223,986)</u>
Net position of governmental activities	<u><u>\$ (34,078,607)</u></u>

See Accompanying Notes to the Financial Statements

Armada Area Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2021

	General Fund	Capital	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
		Project Fund	Funds		
		Tech Bond	2021 Refunding		
Revenues					
Local sources	\$ 3,383,955	\$ 934	\$ -	\$ 4,861,902	\$ 8,246,791
State sources	13,893,010	-	-	11,578	13,904,588
Federal sources	1,301,341	-	-	663,620	1,964,961
Interdistrict sources	1,056,970	-	-	-	1,056,970
Total revenues	<u>19,635,276</u>	<u>934</u>	<u>-</u>	<u>5,537,100</u>	<u>25,173,310</u>
Expenditures					
Current					
Education					
Instruction	10,812,038	-	-	810,906	11,622,944
Supporting services	7,879,670	-	-	-	7,879,670
Food services	-	-	-	514,669	514,669
Community services	162,225	-	-	23,932	186,157
Capital outlay	341,845	59,772	-	132,908	534,525
Debt service					
Principal	94,744	-	-	5,760,000	5,854,744
Interest and other expenditures	1,214	-	-	1,134,306	1,135,520
Bond issuance costs	-	-	339,053	-	339,053
Payment to bond refunding escrow agent	-	-	10,669,770	-	10,669,770
Total expenditures	<u>19,291,736</u>	<u>59,772</u>	<u>11,008,823</u>	<u>8,376,721</u>	<u>38,737,052</u>
Excess (deficiency) of revenues over expenditures	<u>343,540</u>	<u>(58,838)</u>	<u>(11,008,823)</u>	<u>(2,839,621)</u>	<u>(13,563,742)</u>
Other Financing Sources (Uses)					
Proceeds from school loan revolving fund	-	-	11,010,000	3,335,032	14,345,032
Capital lease proceeds	283,959	-	-	-	283,959
Transfers in	-	-	-	311,450	311,450
Transfers out	(3,470)	-	-	(307,980)	(311,450)
Total other financing sources (uses)	<u>280,489</u>	<u>-</u>	<u>11,010,000</u>	<u>3,338,502</u>	<u>14,628,991</u>
Net change in fund balance	624,029	(58,838)	1,177	498,881	1,065,249
Fund balances - beginning, as restated	1,311,205	1,099,108	-	911,970	3,322,283
Fund balances - ending	<u>\$ 1,935,234</u>	<u>\$ 1,040,270</u>	<u>\$ 1,177</u>	<u>\$ 1,410,851</u>	<u>\$ 4,387,532</u>

See Accompanying Notes to the Financial Statements

Armada Area Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2021

Net change in fund balances - Total governmental funds	\$ 1,065,249
<p>Total change in net position reported for governmental activities in the statement of activities is different because:</p>	
<p>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 as depreciation expense.</p>	
Depreciation expense	(1,675,893)
Capital outlay	396,521
Sale of capital assets (net book value)	(6,947)
<p>Expenses are recorded when incurred in the statement of activities. The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.</p>	
Net change in net pension liability	(1,753,745)
Net change in deferred inflows (outflows) of resources related to the net pension liability	(688,663)
<p>The statement of net position reports the net OPEB liability and deferred outflows of resources and deferred inflows related to the net OPEB liability and OPEB expense. However, the amount recorded on the governmental funds equals actual pension contributions.</p>	
Net change in net OPEB liability	1,823,181
Net change in deferred inflows (outflows) of resources related to the net OPEB liability	(900,095)
<p>Expenses are recorded when incurred in the statement of activities</p>	
Interest	30,758
Compensated absences	3,265
<p>Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities</p>	
Debt issued	(14,628,991)
Repayments of long-term debt	16,524,514
Amortization of premiums	229,062
Amortization of amount on deferred amount on refunding	(66,121)
Change in net position of governmental activities	\$ <u>352,095</u>

See Accompanying Notes to the Financial Statements

Armada Area Schools
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2021

	<u>Custodial Funds</u>
Assets	
Cash	\$ <u>75,499</u>
Net Position	
Assets held for other scholarships	\$ <u>75,499</u>

See Accompanying Notes to the Financial Statements

Armada Area Schools
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2021

	<u>Custodial Funds</u>
Additions	
Interest and investment earnings	\$ 2
Deductions	
Scholarships	<u>5,507</u>
Change in net position	(5,505)
Net position - beginning	<u>81,004</u>
Net position - ending	<u><u>\$ 75,499</u></u>

See Accompanying Notes to the Financial Statements

Armada Area Schools
Notes to the Financial Statements
June 30, 2021

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Armada Area Schools (District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies.

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net position resulting from current year activities.

Fund Financial Statements

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated

Armada Area Schools
Notes to the Financial Statements
June 30, 2021

absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Tech Bond Fund – These funds are used for the purpose of erecting, furnishing and equipping additions to and remodeling, re-furnishing and re-equipping school buildings; acquiring and installing education technology improvements; acquiring school buses/acquiring land for site purposes; developing and improving sites; and to pay the cost of issuing the Bonds.

2021 Debt Refunding Fund – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, school bond loan fund activity, and other expenditures on long-term debt. The major debt service funds include the 2021 Bond.

Additionally, the School District reports the following fund types:

Capital Projects Funds – Sinking Funds are used to record the sinking fund property tax levy and other revenue and the disbursement of invoices specifically for acquiring new school sites,

construction, additions, or major replacements to school buildings. The 2018 Building & Site Fund is used for the purpose of capital improvements including erecting, furnishing and equipping additions to and remodeling, re-furnishing and re-equipping school buildings; acquiring and installing education technology improvements; acquiring school buses/acquiring land for site purposes; developing and improving sites; and to pay the cost of issuing the Bonds; and to pay the cost of issuing the Bonds

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include Food Service, Community Education, and Student/School Activity Fund. Operating deficits generated by these activities are generally covered by a transfer from the General Fund.

Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt. The debt service funds include the 2005, 2007, 2014, 2015 and 2017 Series A & B refunding issue and 2016 Bond.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Custodial Funds are funds entrusted to the School District for and the principal and interest of the trust may be spent.

Assets, Liabilities and Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Armada Area Schools
Notes to the Financial Statements
June 30, 2021

The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2019, the rates are as follows per \$1,000 of assessed value.

General Fund	
Non-principal residence exemption	18.0000
Commercial personal property	6.0000
Debt Service Funds	7.0000
Sinking Fund	0.8394

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. All of the School District's tax roll lies within the Counties of Macomb and St. Clair.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the Counties of Macomb and St. Clair and remitted to the School District by May 15.

Prepaid Items – Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they are therefore capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their acquisition value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000. The School District defines building and site capital betterments as expenditures in excess of \$20,000 that extend the useful life of the capital asset at least five years. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. The School District does not depreciate capital assets in the year of acquisition. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Equipment and furniture	5-10 years
Buses and other vehicles	5-10 years

Deferred Outflows of Resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. Deferred amounts on bond refundings are included in the district-wide financials statements. The amounts represent the difference between the reacquisition price and the net carrying amount of the prior debt. For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans. The School District also reported deferred outflows of resources for pension and OPEB contributions made after the measurement date.

Armada Area Schools
Notes to the Financial Statements
June 30, 2021

This amount will reduce the net pension and OPEB liabilities in the following year.

Compensated Absences – Sick days are earned by eligible employees at the rate depending on their classification. Certain classifications of employees may accumulate unused sick days up to a maximum amount, determined by their job classification. Retiring employees of certain job classifications, who meet certain age and years of service requirements are paid for accumulated sick days to a maximum number of days at a rate determined by their job category. There is no contractual provision for payment of unused vacation. They may be used for vacation only.

The liability for compensated absences reported in the district-wide financial statements consist of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are 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. The amount reported is salary related and includes no fringe benefits, since the amount of said benefits would be immaterial.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period.

In the School District's fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while

discounts are reported as other financing uses.

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

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

Deferred Inflows of Resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans.

Armada Area Schools
Notes to the Financial Statements
June 30, 2021

Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to MPERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

Fund Balance – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable - amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Education. The Board of Education has granted the Superintendent the authority to assign funds. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the School District's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards

Statement No. 84, Fiduciary Activities improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria.

Armada Area Schools
Notes to the Financial Statements
June 30, 2021

Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, (1) increases consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigates costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhances the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

Upcoming Accounting and Reporting Changes

Statement No. 87, *Leases* increases the usefulness of the District's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the District's leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2022.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting

period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2022.

Statement No. 93, *Replacement of Interbank Offered Rates* establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement apply to the financial statements of all state and local governments. This statement is effective for the year ending June 30, 2022.

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is

Armada Area Schools
Notes to the Financial Statements
June 30, 2021

compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. This statement is effective for the year ending June 30, 2023.

Statement No. 96, *Subscription-Based Information Technology Arrangements*, is based on the standards established in Statement No. 87 *Leases*. This statement (1) defines a SBITA as a contract that conveys control of the right to use a SBITA vendor's IT software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction (2) requires governments with SBITAs to recognize a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability, and (3) provides guidance related to outlays other than subscription payments, including implementation costs, and requirements for note disclosures related to a SBITA. This statement is effective for the year ending June 30, 2023.

The School District is evaluating the impact that the above pronouncements will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. The Act requires expenditures to be budgeted on a functional basis. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the Act if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts within functions in any fund; however, any revisions that alter the total expenditures of any function must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations.

Excess of Expenditures over Appropriations

The School District did not have significant expenditure budget variances.

Armada Area Schools
Notes to the Financial Statements
June 30, 2021

Compliance – Bond Proceeds

The Capital Projects Funds includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, management believes the School District has complied, in all material respects, with the applicable provisions of Section 1351a of the Revised School Code. The following is a summary of the revenue and expenditures in the Tech Bond and 2018 Building and Site Bond from the inception of the funds through the current fiscal year:

	Tech Bond	2018 Building & Site Bond
Revenues	\$ 4,373,723	\$ 6,705,500
Expenditures	3,333,453	6,630,439

Compliance Sinking Funds

The Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, management believes the School District has complied, in all material respects, with the applicable provisions of § 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 2004-4.

Note 3 - Deposits and Investments

The School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 4,695,256	\$ 75,499	\$ 4,770,755

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 799,691
Investments in securities, mutual funds, and similar vehicles	3,970,269
Petty cash and cash on hand	795
 Total	 \$ 4,770,755

As of year end, the School District had the following investments:

Investment	Fair Value	Maturities	Rating	Rating Organization
Michigan Liquid Asset Fund	\$ 3,970,269	6 mos. Avg.	AAAm	S & P

The valuation method for investments measured at net asset value (NAV) per share (or its equivalent) is discussed below.

As of June 30, 2021, the net asset value of the School District's investment in MILAF + Portfolio was \$3,970,269. Participation in the investment pool has not resulted in any unfunded commitments. Shares are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made provided the District has sufficient shares to meet the redemption request. In the event of an emergency that would make the determination of net asset value not reasonably practical, the Trust's Board of Trustee's may suspend the right of withdrawal or postpone the date of payment. The net asset value ("NAV") per share of the MILAF+ Portfolio is calculated as of the close of business each business day by dividing the net position of that Portfolio by the number of its outstanding shares. It is the MILAF+ Portfolio's objective to maintain a NAV of \$1.00 per share, however, there is no assurance that this objective will be achieved. The exact

Armada Area Schools
Notes to the Financial Statements
June 30, 2021

price for share transactions will be determined based on the NAV next calculated after receipt of a properly executed order. The number of shares purchased or redeemed will be determined by the NAV.

Interest rate risk – The School District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes and the School District’s investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers’ acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Concentration of credit risk – The School District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District’s deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year end, \$701,040 of the School District’s bank balance of \$1,003,827 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of year end, none of the School District’s investments were exposed to custodial credit risk.

Note 4 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,187,079	\$ -	\$ -	\$ 1,187,079
Capital assets being depreciated				
Buildings and additions	53,124,767	12,120	-	53,136,887
Land improvements	3,769,761	8,700	-	3,778,461
Equipment and furniture	12,620,068	91,742	-	12,711,810
Buses and other vehicles	1,500,089	283,959	138,940	1,645,108
Total capital assets being depreciated	71,014,685	396,521	138,940	71,272,266
Less accumulated depreciation for				
Buildings and additions	18,586,455	419,910	-	19,006,365
Land improvements	1,501,902	1,006,647	-	2,508,549
Equipment and furniture	11,221,453	137,198	-	11,358,651
Buses and other vehicles	933,286	112,138	131,993	913,431
Total accumulated depreciation	32,243,096	1,675,893	131,993	33,786,996
Net capital assets being depreciated	38,771,589	(1,279,372)	6,947	37,485,270
Net capital assets	\$ 39,958,668	\$ (1,279,372)	\$ 6,947	\$ 38,672,349

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Depreciation expense was charged to activities of the School District as follows:

Governmental Activities	
Instruction	\$ 964,133
Support services	653,626
Food services	42,692
Community services	<u>15,442</u>
 Total governmental activities	 <u>\$ 1,675,893</u>

Note 5 - Interfund Receivable and Payable and Transfers

Individual interfund receivable and payable balances at year end were:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 1,618
Nonmajor Governmental Funds	General Fund	<u>83,260</u>
		<u>\$ 84,878</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers were made during the year, between the General Fund and the Food Service Fund totaling \$3,470 and between the Debt Service Funds totaling \$307,980. These transfers were made to cover the costs of the District's programs that were in excess of revenues generated from those activities and to make debt payments.

Note 6 - Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue are as follows:

	<u>Unearned</u>
Grant and categorical aid payments received prior to meeting all eligibility requirements	\$ 804,962
Tuition	10,750
Other	<u>1,546</u>
Total	<u>\$ 817,258</u>

Note 7 - State Aid Anticipation Note

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th. The School District is required to pledge 100% of their state school aid, October through August, or until the note is repaid, whichever is longer. The State has discretion to accelerate repayment terms if they have cause for concern. If the note is in default status, there is a penalty interest rate that may apply.

Short-term debt activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Ending Balance</u>
State aid anticipation note	\$ 297,525	\$ 2,200,000	\$ 2,057,678	\$ 439,847

Armada Area Schools
Notes to the Financial Statements
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The state aid anticipation note agreement includes an irrevocable set-aside of \$1,760,153 at year end that is considered defeased debt and not included in the ending balance.

Note 8 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. The State can withhold state aid if it has to make a bond payment on behalf of the School District related to qualified bonds. For the School Bond Loan Fund or School Loan Revolving Fund, the State may withhold state aid if the School District is in default, or apply late charges in an instance of default or fails to appropriately levy debt mills. Other long-term obligations include compensated absences and capital leases.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Bonds payable					
General obligation bonds	\$ 33,500,000	\$ 11,010,000	\$ 5,760,000	\$ 38,750,000	\$ 5,950,000
Unamortized bond premium	1,465,156	-	229,062	1,236,094	-
Total bonds payable	<u>34,965,156</u>	<u>11,010,000</u>	<u>5,989,062</u>	<u>39,986,094</u>	<u>5,950,000</u>
Notes from direct borrowings and direct placements					
School loan revolving fund	7,166,783	3,335,032	10,500,336	1,479	-
Accreted Interest- SRLF	169,439	202,230	371,664	5	-
Total notes from direct borrowings and direct placements	<u>7,336,222</u>	<u>3,537,262</u>	<u>10,872,000</u>	<u>1,484</u>	<u>-</u>
Other liabilities					
Bus capital lease	34,771	283,959	94,744	223,986	53,700
Compensated absences	39,823	16,500	19,765	36,558	12,000
Total liabilities	<u>74,594</u>	<u>300,459</u>	<u>114,509</u>	<u>260,544</u>	<u>65,700</u>
Total	<u><u>\$ 42,375,972</u></u>	<u><u>\$ 14,847,721</u></u>	<u><u>\$ 16,975,571</u></u>	<u><u>\$ 40,248,122</u></u>	<u><u>\$ 6,015,700</u></u>

For governmental activities, compensated absences and bus capital leases are primarily liquidated by the General Fund.

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General obligation bonds payable at year end, consist of the following:

\$ 11,570,000 refunding serial bonds, issued June 2014, due in annual installments of \$ 820,000 to \$ 1,350,000 through May 1, 2024; interest at 4.00% to 5.00%	\$ 5,930,000
\$ 3,750,000 refunding serial bonds, issued February 2015, due in annual installments of \$ 705,000 to \$ 780,000 through May 1, 2022; interest at 2.00% to 5.00%	780,000
\$ 4,100,000 technology bonds, issued March 2016, due in annual installments of \$ 300,000 to \$ 700,000 through May 1, 2023; interest at 2.10%	1,400,000
\$ 6,925,000 refunding serial bonds, issued March 2017, due in annual installments of \$ 45,000 to \$ 1,630,000 through May 1, 2030; interest at 2.00% - 3.00%	6,835,000
\$ 15,815,000 refunding serial bonds, issued May 2017, due in annual installments of \$ 2,905,000 to \$ 3,885,000 through May 1, 2030; interest at 1.810% to 3.036%	6,965,000
\$ 6,490,000 building & site bonds, issued May 2018, due in annual installments of \$ 250,000 to \$ 1,110,000 through May 1, 2032; interest at 3.00% to 5.00%	5,830,000
\$ 11,010,000 refunding serial bonds, issued May 2021, due in annual installments of \$ 915,000 to \$ 2,195,000 through May 1, 2032; interest at 0.60% to 2.10%	<u>11,010,000</u>
Total general obligation bonded debt	<u><u>\$ 38,750,000</u></u>

Future principal and interest requirements for bonded debt are as follows:

Year Ending June 30,	Bonds		
	Principal	Interest	Total
2022	\$ 5,950,000	\$ 943,028	\$ 6,893,028
2023	6,115,000	776,498	6,891,498
2024	2,625,000	651,710	3,276,710
2025	2,710,000	604,552	3,314,552
2026	2,785,000	547,056	3,332,056
2027 - 2031	15,245,000	1,636,526	16,881,526
2032 - 2033	<u>3,320,000</u>	<u>56,798</u>	<u>3,376,798</u>
Total	<u><u>\$ 38,750,000</u></u>	<u><u>\$ 5,216,168</u></u>	<u><u>\$ 43,966,168</u></u>

The general obligation bonds are payable from the Debt Service Funds. As of year end, the fund had a fund balance of \$158,867 to pay this debt. Future debt and interest will be payable from future tax levies.

School Bus Installments

School bus installment purchase payable consist of the following:

Date	Original Amount	Due Date	Interest Rate
June 30, 2017	\$ 168,189	June 30, 2021	3.49%
August 10, 2020	\$ 223,986	August 10, 2024	2.72%

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Notes to the Financial Statements
June 30, 2021

Future principal and interest requirements are as follows:

Year ending June 30,	Principal	Interest	Total
2022	\$ 53,700	\$ 6,273	\$ 59,973
2023	55,204	4,769	59,973
2024	56,750	3,223	59,973
2025	58,332	1,641	59,973
Total	<u>\$ 223,986</u>	<u>\$ 15,906</u>	<u>\$ 239,892</u>

The assets acquired through capital leases are as follows:

<u>Assets</u>	
Buses	\$ 1,645,108
Less accumulated depreciation	<u>913,431</u>
Total	<u>\$ 731,677</u>

Compensated Absences

Accrued compensated absences at year end, consist of \$36,558 in accrued sick time benefits. The amount to be paid out over the next year is included within the amounts listed as due within one year.

Current Refinancing

In May 2021, the School District issued general obligation bonds of \$11,010,000 (par value) with an interest rate of 0.6% to 2.1% to refinance the School Bond Loan and Revolving Funds. The net proceeds from the issuance of the general obligation bonds were deposited with an escrow agent to provide debt service payments.

Deferred Amount on Refunding

The District had advanced refundings whose differences resulted in deferred outflows of resources of \$495,580 and \$562,775, respectively, and are also being charged to activities through fiscal year 2030. The total net deferred amount on refunding is \$499,422, which is reported on the statement of net position as a deferred outflow of resources.

Defeased Debt

In prior years, the School District has defeased various bonds issued by creating separate irrevocable trust funds. New debt has been issued and the net proceeds of each refunding were placed in separate special escrow accounts and invested in securities of the U.S. Government and its agencies. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded bonds are considered to be defeased. Accordingly, the trust account assets and liability for the defeased bonds are not included in the School District's financial statements.

The final payment date is May 1, 2022 for the 1997 issue for the partial refunding that occurred in 2005. During 2013, a portion of the 2005 bonds were refunded. During 2015, the 2005 Refunding debt was refunded. Final payment for these refunded bonds is May 1, 2026. During 2017, the 2007 debt was refunded. Final payment for these refunded bonds is May 2030.

As of year end, the amount of defeased debt outstanding but removed from the School District's financial statements is as follows:

2005 Building and Site refunded in 2014	<u>\$ 9,860,000</u>
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Interest expenditures for the fiscal year in the General Fund and Debt Service Funds were \$1,214 and \$1,134,306, respectively.

Armada Area Schools
Notes to the Financial Statements
June 30, 2021

Note 9 - Risk Management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health and vision claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District. The District had no unemployment compensation expense for the year ended June 30, 2021. No provision has been made for possible future claims.

Note 10 - Pension Plan

Plan Description

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

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under

the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

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 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Armada Area Schools
Notes to the Financial Statements
June 30, 2021

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, 2017 valuation will be amortized over a 19-year period beginning October 1, 2019 and ending September 30, 2038

The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2020.

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

Required contributions to the pension plan from the School District were \$2,923,144 for the year ending September 30, 2020.

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

At June 30, 2021, the School District reported a liability of \$36,538,720 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2019. The School 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, 2020, the School District's proportion was .1064 percent, which was an increase of .0013 percent from its proportion measured as of September 30, 2019.

For the plan year ending September 30, 2020, the School District recognized pension expense of \$5,440,026 for the measurement period. For the reporting period ending June 30, 2021, the School District recognized total pension contribution expense of \$3,230,589.

Armada Area Schools
Notes to the Financial Statements
June 30, 2021

At June 30, 2021, the School 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)	Total
Difference between expected and actual experience	\$ 558,282	\$ (77,987)	\$ 480,295
Changes of assumptions	4,048,842	-	4,048,842
Net difference between projected and actual earnings on pension plan investments	153,519	-	153,519
Changes in proportion and differences between the School District contributions and proportionate share of contributions	347,636	(42,729)	304,907
Total to be recognized in future	5,108,279	(120,716)	4,987,563
School District contributions subsequent to the measurement date	2,938,433	(1,391,687)	1,546,746
Total	\$ 8,046,712	\$ (1,512,403)	\$ 6,534,309

Contributions subsequent to the measurement date 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, 2022. The District will offset the contribution expense in the year ended June 30, 2022 with the 147c supplemental income received subsequent to the measurement date which is included in the deferred inflows of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows during the following plan years:

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future Pension Expenses)	
2021	\$ 2,220,829
2022	1,597,502
2023	883,367
2024	285,865
	\$ 4,987,563

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.

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Notes to the Financial Statements
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Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2019
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 2.75%
- Investment Rate of Return:
 - MIP and Basic Plans: 6.80% net of investment expenses
 - Pension Plus Plan: 6.80% net of investment expenses
 - Pension Plus 2 Plan: 6.00% net of investment expenses
- Projected Salary Increases: 2.75 – 11.55%, including wage inflation at 2.75%.
- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members.
- Mortality:
 - Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
 - Active Members: Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

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 valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2020, is based on the results of an actuarial valuation date of September 30, 2019, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees is 4.4892 years.

Recognition period for assets is 5 years.

Full actuarial assumptions are available in the 2020 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on 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, 2020, are summarized in the following table:

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

*Long-term rates of return are net of administrative expenses and 2.1% inflation.

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June 30, 2021

Rate of Return

For the fiscal year ended September 30, 2020, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 5.37%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2, hybrid plans provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension 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 plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate 6.80% (6.80% for the Pension Plus plan, 6.80% for the Pension Plus 2 plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease (Non-Hybrid/Hybrid)*	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)*	1% Increase (Non-Hybrid/Hybrid)*
5.80% / 5.80% / 5.00%	6.80% / 6.80% / 6.00%	7.80% / 7.80% / 7.00%
<u>\$ 47,293,174</u>	<u>\$ 36,538,720</u>	<u>\$ 27,625,674</u>

**Discount rates listed in the following order: Basic and Member Investment Plan (MIP), Pension Plus, and Pension Plus 2.*

Michigan Public School Employees' Retirement System (MPERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS Comprehensive Annual Financial Report, available on the ORS website at www.michigan.gov/orsschools.

Payables to the Michigan Public School Employees' Retirement System (MPERS)

There were no significant payables to the pension plan that are not ordinary accruals to the School District.

Armada Area Schools
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Note 11 - Post-employment Benefits Other Than Pensions (OPEB)

Plan Description

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

The System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

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.

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%

Armada Area Schools
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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 OPEB 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, 2017 valuation will be amortized over a 19-year period beginning October 1, 2019 and ending September 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2020.

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.0%	8.09%
Personal Healthcare Fund (PHF)	0.0%	7.57%

Required contributions to the OPEB plan from the School District were \$757,093 for the year ended September 30, 2020.

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

At June 30, 2021, the School District reported a liability of \$5,740,700 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2019. The School 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, 2020, the School District's proportion was .1072 percent, which was an increase of .0018 percent from its proportion measured as of September 30, 2019.

For the plan year ending September 30, 2020, the School District recognized OPEB expense of (\$120,809) for the measurement period. For the reporting period ending June 30, 2021, the School District recognized total OPEB contribution expense of \$755,265.

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Notes to the Financial Statements
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At June 30, 2021, the School 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)	Total
Difference between expected and actual experience	\$ -	\$ (4,277,358)	\$ (4,277,358)
Changes of assumptions	1,892,823	-	1,892,823
Net difference between projected and actual earnings on OPEB plan investments	47,913	-	47,913
Changes in proportion and differences between the School District contributions and proportionate share of contributions	176,077	(7,065)	169,012
Total to be recognized in future	2,116,813	(4,284,423)	(2,167,610)
School District contributions subsequent to the measurement date	676,688	-	676,688
Total	<u>\$ 2,793,501</u>	<u>\$ (4,284,423)</u>	<u>\$ (1,490,922)</u>

Contributions subsequent to the measurement date 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows during the following plan years:

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future OPEB Expenses)	
2021	\$ (596,609)
2022	(529,888)
2023	(428,073)
2024	(339,464)
2025	(273,576)
	<u>\$ (2,167,610)</u>

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.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2019

Armada Area Schools
Notes to the Financial Statements
June 30, 2021

- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 2.75%
- Investment Rate of Return: 6.95% net of investment expenses
- Projected Salary Increases: 2.75 – 11.55%, including wage inflation of 2.75%
- Healthcare Cost Trend Rate: 7.0% Year 1 graded to 3.5% Year 15; 3.0% Year 12
- Mortality:
 - Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
 - Active Members: Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees is 5.6018 years.

Recognition period for assets is 5 years.

Full actuarial assumptions are available in the 2019 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Other 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.

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 valuations beginning with the September 30, 2017 valuation. The total OPEB liability as of September 30, 2020, is based on the results of an actuarial valuation date of September 30, 2019, and

Armada Area Schools
Notes to the Financial Statements
June 30, 2021

Long-Term Expected Return on 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, 2020, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	25.0 %	5.6 %
Alternative Investment Pools	16.0	9.3
International Equity	15.0	7.4
Fixed Income Pools	10.5	0.5
Real Estate and Infrastructure Pools	10.0	4.9
Absolute Return Pools	9.0	3.2
Real Return/Opportunistic Pools	12.5	6.6
Short Term Investment Pools	2.0	(0.1)
	<u>100.0%</u>	

*Long-term rates of return are net of administrative expenses and 2.1% inflation.

Rate of Return

For the fiscal year ended September 30, 2020, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 5.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

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 OPEB plan investments of 6.95%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

1% Decrease 5.95%	Current Discount Rate 6.95%	1% Increase 7.95%
<u>\$ 7,374,582</u>	<u>\$ 5,740,700</u>	<u>\$ 4,365,109</u>

Armada Area Schools
Notes to the Financial Statements
June 30, 2021

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

The following presents the School District's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the School District's proportionate share of 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	Current Healthcare Cost Trend Rate	1% Increase
\$ 4,312,440	\$ 5,740,700	\$ 7,365,170

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued MPSERS Comprehensive Annual Financial Report, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan

There were no significant payables to the OPEB plan that are not ordinary accruals to the School District.

Note 12 - Tax Abatements

School Districts may receive reduced property tax revenues as a result of Industrial Facilities Tax exemptions and Brownfield Redevelopment Agreements granted by the various municipalities within the School District boundaries. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties.

For the fiscal year ended June 30, 2021, the School District's property tax revenues were not reduced by any amounts under these programs. There are no significant abatements made by the School District.

Note 13 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Note 14 - Change in Accounting Principle

As indicated in Note 1, Governmental Accounting Standards Board Statement 84 has been adopted. The standard requires this change be applied retroactively. The impact of this change is to reduce beginning net position in the statement of activities as of July 1, 2020 by \$423,428, restating it from (\$34,854,130) to (\$34,430,702), increased beginning fund balance in the statement of revenues, expenditures and changes in fund balances as of July 1, 2020 by \$423,428, restating it from \$2,898,855 to \$3,322,283.

REQUIRED SUPPLEMENTARY INFORMATION

Armada Area Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2021

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Revenues				
Local sources	\$ 3,515,000	\$ 3,724,000	\$ 3,383,955	\$ (340,045)
State sources	13,510,000	14,690,000	13,893,010	(796,990)
Federal sources	470,000	628,000	1,301,341	673,341
Interdistrict sources	<u>882,000</u>	<u>882,000</u>	<u>1,056,970</u>	<u>174,970</u>
Total revenues	<u>18,377,000</u>	<u>19,924,000</u>	<u>19,635,276</u>	<u>(288,724)</u>
Expenditures				
Instruction				
Basic programs	8,797,796	9,173,318	9,009,061	(164,257)
Added needs	1,945,687	1,976,005	1,802,977	(173,028)
Supporting services				
Pupil	1,049,346	1,167,739	1,088,825	(78,914)
Instructional staff	994,469	925,811	877,468	(48,343)
General administration	526,000	526,000	468,822	(57,178)
School administration	1,664,497	1,507,008	1,453,727	(53,281)
Business	961,208	820,549	808,528	(12,021)
Operations and maintenance	1,784,447	1,810,891	1,789,232	(21,659)
Pupil transportation services	780,623	827,763	785,295	(42,468)
Central	262,507	275,110	270,556	(4,554)
Athletic activities	338,481	337,299	337,217	(82)
Community services	185,729	189,503	162,225	(27,278)
Capital outlay	337,386	343,271	341,845	(1,426)
Debt service				
Principal	97,897	97,897	94,744	(3,153)
Interest and fiscal charges	<u>2,387</u>	<u>2,387</u>	<u>1,214</u>	<u>(1,173)</u>
Total expenditures	<u>19,728,460</u>	<u>19,980,551</u>	<u>19,291,736</u>	<u>(688,815)</u>
Excess (deficiency) of revenues over expenditures	(1,351,460)	(56,551)	343,540	400,091
Other Financing Uses				
Capital lease proceeds	\$ -	\$ -	\$ 283,959	\$ 283,959
Transfers out	<u>-</u>	<u>(3,470)</u>	<u>(3,470)</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>(3,470)</u>	<u>280,489</u>	<u>283,959</u>
Net change in fund balance	(1,351,460)	(60,021)	624,029	684,050
Fund balance - beginning	<u>1,311,205</u>	<u>1,311,205</u>	<u>1,311,205</u>	<u>-</u>
Fund balance - ending	<u>\$ (40,255)</u>	<u>\$ 1,251,184</u>	<u>\$ 1,935,234</u>	<u>\$ 684,050</u>

Armada Area Schools
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th of Each June Fiscal Year)

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
A. Reporting unit's proportion of net pension liability (%)	0.1064%	0.1050%	0.1046%	0.1047%	0.1051%	0.1042%	0.1092%			
B. Reporting unit's proportionate share of net pension liability	\$ 36,538,720	\$ 34,784,975	\$ 31,444,711	\$ 27,131,837	\$ 26,210,832	\$ 25,441,198	\$ 24,055,419			
C. Reporting unit's covered payroll	\$ 9,490,006	\$ 9,473,900	\$ 8,906,340	\$ 8,713,411	\$ 8,887,203	\$ 8,555,666	\$ 9,440,221			
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered payroll	385.02%	367.17%	353.06%	311.38%	294.93%	297.36%	254.82%			
E. Plan fiduciary net position as a percentage of total pension liability	59.72%	60.31%	62.36%	64.21%	63.27%	63.17%	66.20%			

Notes:

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2020.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2020.

Armada Area Schools
Required Supplementary Information
Schedule of the School District's Pension Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

	For the Years Ended June 30,									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
A. Statutorily required contribution:	\$ 3,230,589	\$ 2,903,642	\$ 2,769,638	\$ 2,648,039	\$ 2,359,107	\$ 2,009,389	\$ 1,870,100			
B. Contributions in relation to statutorily required contributions	<u>3,230,589</u>	<u>2,903,642</u>	<u>2,769,638</u>	<u>2,648,039</u>	<u>2,359,107</u>	<u>2,009,389</u>	<u>1,870,100</u>			
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>			
D. Reporting unit's covered payro	\$ 9,683,188	\$ 9,473,900	\$ 9,109,934	\$ 8,871,582	\$ 9,012,744	\$ 8,857,974	\$ 8,950,264			
E. Contributions as a percentage of covered payroll	33.36%	30.65%	30.40%	29.85%	26.18%	22.68%	20.89%			

Armada Area Schools
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net OPEB Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th of Each June Fiscal Year)

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
A. Reporting unit's proportion of net OPEB liability (%)	0.1072%	0.1054%	0.1049%	0.1046%						
B. Reporting unit's proportionate share of net OPEB liability	\$ 5,740,700	\$ 7,563,881	\$ 8,336,313	\$ 9,260,024						
C. Reporting unit's covered payroll	\$ 9,490,006	\$ 9,473,900	\$ 8,906,340	\$ 8,713,411						
D. Reporting unit's proportionate share of net OPEB liability as a percentage of its covered payroll	60.49%	79.84%	93.60%	106.27%						
E. Plan fiduciary net position as a percentage of total OPEB liability	59.44%	48.46%	42.95%	36.39%						

Notes:

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2020.
Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2020

Armada Area Schools
Required Supplementary Information
Schedule of the School District's OPEB Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

	For the Years Ended June 30									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
A. Statutorily required contributions	\$ 755,265	\$ 752,465	\$ 716,328	\$ 625,048						
B. Contributions in relation to statutorily required contributions	<u>755,265</u>	<u>752,465</u>	<u>716,328</u>	<u>625,048</u>						
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>						
D. Reporting unit's covered payroll	\$ 9,683,188	\$ 9,473,900	\$ 9,473,900	\$ 9,109,934						
E. Contributions as a percentage of covered payroll	7.80%	7.94%	7.56%	6.86%						

OTHER SUPPLEMENTARY INFORMATION

Armada Area Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2021

	Special Revenue Funds			Debt Service Funds						Capital Project Fund		Total Nonmajor Governmental Funds	
	Community Education	Food Service	Student/School Activity Fund	2007 Refunding	2005 Refunding	2014 Refunding	2015 Refunding	2016 Bond	2017 Series A	2017 Series B	2018 Bldg & Site		Sinking Fund
Assets													
Cash	\$ 13,196	\$ 96,810	\$ 404,589	\$ 6,169	\$ 13,015	\$ 53,373	\$ 33,499	\$ 31,670	\$ 19,821	\$ 143	\$ 75,061	\$ 579,533	\$ 1,326,879
Accounts receivable	-	2,085	-	-	-	-	-	-	-	-	-	-	2,085
Due from other funds	-	83,260	-	-	-	-	-	-	-	-	-	-	83,260
Prepaid items	245	-	-	-	-	-	-	-	-	-	-	-	245
Total assets	\$ 13,441	\$ 182,155	\$ 404,589	\$ 6,169	\$ 13,015	\$ 53,373	\$ 33,499	\$ 31,670	\$ 19,821	\$ 143	\$ 75,061	\$ 579,533	\$ 1,412,469
Liabilities and Fund Balance													
Liabilities													
Due to other funds	\$ 1,618	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,618
Fund Balances													
Non-spendable													
Prepaid items	245	-	-	-	-	-	-	-	-	-	-	-	245
Restricted for:													
Debt service	-	-	-	6,169	13,015	53,373	33,499	31,670	19,821	143	-	-	157,690
Capital projects	-	-	-	-	-	-	-	-	-	-	75,061	579,533	654,594
Food service	-	182,155	-	-	-	-	-	-	-	-	-	-	182,155
Committed for:													
Student/School activities	-	-	404,589	-	-	-	-	-	-	-	-	-	404,589
Assigned for:													
Community education	11,578	-	-	-	-	-	-	-	-	-	-	-	11,578
Total fund balances	11,823	182,155	404,589	6,169	13,015	53,373	33,499	31,670	19,821	143	75,061	579,533	1,410,851
Total liabilities and fund balances	\$ 13,441	\$ 182,155	\$ 404,589	\$ 6,169	\$ 13,015	\$ 53,373	\$ 33,499	\$ 31,670	\$ 19,821	\$ 143	\$ 75,061	\$ 579,533	\$ 1,412,469

Armada Area Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2021

	Special Revenue Funds			Debt Service Funds						Capital Projects Fund		Total Nonmajor Governmental Funds	
	Community Education	Food Service	Student/School Activity Fund	2007 Refunding	2005 Refunding	2014 Refunding	2015 Refunding	2016 Bond	2017 Series A	2017 Series B	2018 Bldg & Site		Sinking Fund
Revenues													
Local sources	\$ 13,215	\$ 15,715	\$ 792,067	\$ 144,212	\$ 247,382	\$ 1,340,140	\$ 824,721	\$ 721,598	\$ 329,915	\$ -	\$ 66	\$ 432,871	\$ 4,861,902
State sources	-	11,578	-	-	-	-	-	-	-	-	-	-	11,578
Federal sources	-	663,620	-	-	-	-	-	-	-	-	-	-	663,620
Total revenues	13,215	690,913	792,067	144,212	247,382	1,340,140	824,721	721,598	329,915	-	66	432,871	5,537,100
Expenditures													
Current													
Education													
Instruction	-	-	810,906	-	-	-	-	-	-	-	-	-	810,906
Food services	-	514,669	-	-	-	-	-	-	-	-	-	-	514,669
Community services	23,932	-	-	-	-	-	-	-	-	-	-	-	23,932
Capital outlay	-	-	-	-	-	-	-	-	-	-	1,800	131,108	132,908
Debt service													
Principal	-	-	-	235,000	3,005,000	1,045,000	765,000	665,000	45,000	-	-	-	5,760,000
Interest and other expenditures	-	-	-	182,327	277,764	302,550	54,350	43,865	273,450	-	-	-	1,134,306
Total expenditures	23,932	514,669	810,906	417,327	3,282,764	1,347,550	819,350	708,865	318,450	-	1,800	131,108	8,376,721
Excess (deficiency) of revenues over expenditures	(10,717)	176,244	(18,839)	(273,115)	(3,035,382)	(7,410)	5,371	12,733	11,465	-	(1,734)	301,763	(2,839,621)
Other Financing Sources (Uses)													
Proceeds from school bond loan fund	-	-	-	-	3,335,032	-	-	-	-	-	-	-	3,335,032
Transfers in	-	3,470	-	279,230	-	24,700	4,050	-	-	-	-	-	311,450
Transfers out	-	-	-	-	(303,930)	-	-	-	(4,050)	-	-	-	(307,980)
Total other financing sources	-	3,470	-	279,230	3,031,102	24,700	4,050	-	(4,050)	-	-	-	3,338,502
Net change in fund balances	(10,717)	179,714	(18,839)	6,115	(4,280)	17,290	9,421	12,733	7,415	-	(1,734)	301,763	498,881
Fund balances - beginning, as restated	22,540	2,441	423,428	54	17,295	36,083	24,078	18,937	12,406	143	76,795	277,770	911,970
Fund balances - ending	\$ 11,823	\$ 182,155	\$ 404,589	\$ 6,169	\$ 13,015	\$ 53,373	\$ 33,499	\$ 31,670	\$ 19,821	\$ 143	\$ 75,061	\$ 579,533	\$ 1,410,851

Armada Area Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2021

Year Ending June 30,	2014 Refunding	2015 Refunding	2016 Tech Bond	2017 Series A	2017 Series B	2018 Building & Site Bond	2021 Refunding	Total
2022	\$ 1,100,000	\$ 780,000	\$ 700,000	\$ 45,000	\$ 3,080,000	\$ 245,000	\$ -	\$ 5,950,000
2023	1,230,000	-	700,000	45,000	3,885,000	255,000	-	6,115,000
2024	1,285,000	-	-	45,000	-	380,000	915,000	2,625,000
2025	1,350,000	-	-	45,000	-	390,000	925,000	2,710,000
2026	965,000	-	-	400,000	-	485,000	935,000	2,785,000
2027	-	-	-	1,485,000	-	435,000	945,000	2,865,000
2028	-	-	-	1,545,000	-	445,000	965,000	2,955,000
2029	-	-	-	1,595,000	-	470,000	980,000	3,045,000
2030	-	-	-	1,630,000	-	510,000	1,000,000	3,140,000
2031	-	-	-	-	-	1,090,000	2,150,000	3,240,000
2032	-	-	-	-	-	1,125,000	2,195,000	3,320,000
Total	<u>\$ 5,930,000</u>	<u>\$ 780,000</u>	<u>\$ 1,400,000</u>	<u>\$ 6,835,000</u>	<u>\$ 6,965,000</u>	<u>\$ 5,830,000</u>	<u>\$ 11,010,000</u>	<u>\$ 38,750,000</u>
Principal payments due the first day of	May	May	May	May	May	May	May	
Interest payments due the first day of	May and November	May and November	May and November	May and November	May and November	May and November	May and November	
Interest rate	4.00% - 5.00%	2.00% - 5.00%	2.10%	2.00% - 3.00%	1.810% - 3.036%	3.00%	0.60% - 2.10%	
Original issue	<u>\$ 11,570,000</u>	<u>\$ 3,750,000</u>	<u>\$ 4,100,000</u>	<u>\$ 6,925,000</u>	<u>\$ 15,815,000</u>	<u>\$ 6,490,000</u>	<u>\$ 11,010,000</u>	

Armada Area Schools

Single Audit Report

June 30, 2021



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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*

Independent Auditors' Report

Management and the Board of Education
Armada Area Schools
Armada, 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 Armada Area Schools as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Armada Area Schools basic financial statements, and have issued our report thereon dated October 27, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Armada Area Schools 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 Armada Area Schools internal control. Accordingly, we do not express an opinion on the effectiveness of Armada Area Schools internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Yeo & Yeo, P.C.

Flint, Michigan
October 27, 2021



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Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditors' Report

Management and the Board of Education
Armada Area Schools
Armada, Michigan

Report on Compliance for Each Major Federal Program

We have audited Armada Area Schools compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Armada Area Schools major federal programs for the year ended June 30, 2021. Armada Area Schools major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Armada Area Schools compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of Armada Area Schools 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 Armada Area Schools internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Armada Area Schools 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Armada Area Schools, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Armada Area Schools basic financial statements. We issued our report thereon dated October 27, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Yeo & Yeo, P.C.

Flint, Michigan
October 27, 2021

Armada Area Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal Assistance Listing Number	Award Grant Entitlement Program Amount	Inventory/ Accrued (Unearned) Revenue at July 1, 2020	Prior Year Expenditures	Current Year Expenditures	Current Year Cash Payments/ In Kind Received	Inventory/ Accrued (Unearned) Revenue at June 30, 2021
U.S. DEPARTMENT OF AGRICULTURE							
Child Nutrition Cluster							
Passed through Michigan Department of Education							
Non-Cash Assistance							
Entitlement Commodities	10.555	\$ 30,151	\$ -	\$ -	\$ 30,151	\$ 30,151	\$ -
Bonus Commodities		624	-	-	624	624	-
Total Non-Cash Assistance		<u>30,775</u>	<u>-</u>	<u>-</u>	<u>30,775</u>	<u>30,775</u>	<u>-</u>
Cash Assistance							
Summer Food Service Program for Children	10.559						
200900		51,035	-	-	51,035	51,035	-
210904		581,810	-	-	581,810	581,810	-
Total Summer Food Service Program for Children		<u>632,845</u>	<u>-</u>	<u>-</u>	<u>632,845</u>	<u>632,845</u>	<u>-</u>
Total Cash Assistance		<u>632,845</u>	<u>-</u>	<u>-</u>	<u>632,845</u>	<u>632,845</u>	<u>-</u>
Total Child Nutrition Cluster		<u>663,620</u>	<u>-</u>	<u>-</u>	<u>663,620</u>	<u>663,620</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>663,620</u>	<u>-</u>	<u>-</u>	<u>663,620</u>	<u>663,620</u>	<u>-</u>
U.S. DEPARTMENT OF TREASURY							
Coronavirus Relief Fund							
Passed through Michigan Department of Education							
COVID19 - District COVID-19 Costs		21,975	-	-	21,975	21,975	-
COVID19 - Coronavirus Relief Funds - SOM		624,288	-	-	624,288	624,288	-
		646,263	-	-	646,263	646,263	-
Passed through the Macomb Intermediate School District							
COVID19 - Coronavirus Relief Funds - Technology Grant		100,000	-	-	100,000	100,000	-
Passed through the Copper County Intermediate School District							
COVID19 - Coronavirus Relief Funds - MAISA Device Purchasing		25,814	-	-	25,814	25,814	-
Total Coronavirus Relief Fund		<u>772,077</u>	<u>-</u>	<u>-</u>	<u>772,077</u>	<u>772,077</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF TREASURY		<u>772,077</u>	<u>-</u>	<u>-</u>	<u>772,077</u>	<u>772,077</u>	<u>-</u>

Armada Area Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal Assistance Listing Number	Award Grant Entitlement Program Amount	Inventory/ Accrued (Unearned) Revenue at July 1, 2020	Prior Year Expenditures	Current Year Expenditures	Current Year Cash Payments/ In Kind Received	Inventory/ Accrued (Unearned) Revenue at June 30, 2021
U.S. DEPARTMENT OF EDUCATION							
Title I Cluster							
Passed through the Michigan Department of Education Title I, Part A - Grants to Local Educational Agencies 211530-2021	84.010	\$ 41,119	\$ -	\$ -	\$ 41,119	\$ 41,119	\$ -
Special Education Cluster							
Passed through the Macomb Intermediate School District							
Special Education Grants to States	84.027						
200450-1920		336,329	107,885	336,329	-	107,885	-
210450-2021		344,068	-	-	344,068	279,134	64,934
Total Special Education Grants to States		680,397	107,885	336,329	344,068	387,019	64,934
Special Education Preschool Grants	84.173						
210460-1920		21,192	626	21,192	-	626	-
210460-2021		24,285	-	-	24,285	20,591	3,694
Total IDEA Preschool Incentive		45,477	626	21,192	24,285	21,217	3,694
Total Special Education Cluster		725,874	108,511	357,521	368,353	408,236	68,628
Passed through Macomb Intermediate School District							
Career and Technical Education - Basic Grants to States Regional Allocation (Perkins)	84.048						
203520-2012-15		18,000	6,401	18,000	-	6,401	-
213520-2012-15		22,810	-	-	22,810	18,152	4,658
Total Career and Technical Education - Basic Grants to States		40,810	6,401	18,000	22,810	24,553	4,658

Armada Area Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal Assistance Listing Number	Award Grant Entitlement Program Amount	Inventory/ Accrued (Unearned) Revenue at July 1, 2020	Prior Year Expenditures	Current Year Expenditures	Current Year Cash Payments/ In Kind Received	Inventory/ Accrued (Unearned) Revenue at June 30, 2021
U.S. DEPARTMENT OF EDUCATION (Cont.)							
Passed through the Michigan Department of Education Title II, Part A Supporting Effective Instruction State Grants 210520-2021	84.367	\$ 24,173	\$ -	\$ -	\$ 22,229	\$ 22,229	\$ -
Passed through the Michigan Department of Education Title IV Part A Student Support and Academic Enrichment Program 210750-2021	84.424	10,000	-	-	5,542	5,542	-
Passed through the Michigan Department of Education Education Stabilization Fund COVID-19 Elementary and Secondary School Emergency Relief Fund (ESSER) Formula Funds I 203710-1920	84.425D	36,126	-	-	36,126	36,126	-
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>878,102</u>	<u>108,511</u>	<u>357,521</u>	<u>496,179</u>	<u>531,404</u>	<u>73,286</u>
TOTAL FEDERAL AWARDS		<u>\$ 2,313,799</u>	<u>\$ 108,511</u>	<u>\$ 357,521</u>	<u>\$ 1,931,876</u>	<u>\$ 1,967,101</u>	<u>\$ 73,286</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Armada Area Schools
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2021

Note 1 - Basis of Presentation

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

Note 2 - Summary of Significant Accounting Policies

Expenditures

Expenditures reported on the SEFA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance where certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

Armada Area Schools has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Reconciliation to Financial Statements

The federal revenues per the financial statement are in agreement with the SEFA except for the following which is related to beneficiary payments for child care:

Expenditures per the schedule of expenditures of federal awards	\$ 1,931,876
Child Care Relief grant not reported on SEFA	<u>33,085</u>
Federal revenues per the financial statements	<u><u>\$ 1,964,961</u></u>

Note 4 - Funds Transferred to Subrecipients

The Schools District did not transfer any federal funds to subrecipients during the fiscal year.

Armada Area Schools
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2021

Note 5 - Michigan Department of Education Disclosures

Management has reported the expenditures in the SEFA equal to those amounts reported in the annual or final cost reports that have been submitted for that particular grant year.

The federal amounts reported on the Grant Auditor Report (GAR) Subrecipient Schedule are in agreement with the SEFA.

The amounts reported on the Recipient Entitlement Balance Report (PAL Report) agree with the SEFA for USDA donated food commodities.

Armada Area Schools
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements were prepared in accordance with Generally Accepted Accounting Principles:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X 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 that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with §200.516(a)? _____ Yes X No

Armada Area Schools
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021

Identification of major programs:

Assistance Listing Numbers

20.019
10.555/10.559

Name of Federal Program

Coronavirus Relief Fund
Child Nutrition Cluster

Dollar threshold used to distinguish
between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee:

_____ Yes X No

Section II - Government Auditing Standards Findings

No matters were noted.

Section III - Federal Award Findings

No matters were noted.

Armada Area Schools
Summary Schedule of Prior Audit Findings
June 30, 2021

Section IV - Prior Year Audit Findings

There were no matters noted in the prior year related to *Government Auditing Standards* Findings or Federal Award Findings. Armada Area Schools did not require a single audit in the prior year.



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October 27, 2021

Management and the Board of Education
Armada Area Schools
74500 Burk Street
Armada, MI

We have completed our audit of the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Armada Area Schools as of and for the year ended June 30, 2021, and have issued our report dated October 27, 2021. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit.

Our communication includes the following appendices:

- I. Auditors' Communication of Significant Matters with Those Charged with Governance
- II. Matters for Management's Consideration

Matters for management's consideration are not required to be communicated but we believe are valuable for management.

We discussed these matters with various personnel in the School District during the audit and with management. We would also be pleased to meet with you to discuss these matters at your convenience.

This information is intended solely for the information and use of management, the Board of Education, and others within the School District, and is not intended to be, and should not be, used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Flint, Michigan

Appendix I

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 10, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 of the financial statements. The Organization has adopted the following Governmental Accounting Standards Board Statements effective July 1, 2020:

- Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The criteria generally is on (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria.
- Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, (1) increases consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigates costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhances the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the School District's financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Net OPEB liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole and free from bias.

The financial statement disclosures are neutral, consistent, and clear.

Accounting Standards

The Governmental Accounting Standards Board has released additional Statements. Details regarding these Statements are described in Note 1 of the financial statements.

The School District is evaluating the impact the above pronouncements will have on its financial reporting.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial, and communicate them to the appropriate level of management. There were no known misstatements detected as a result of audit procedures that were more than trivial.

There were no known uncorrected misstatements that were more than trivial.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report we had no such disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Emphasis of Matters in Independent Auditors' Report

Our report will include the following emphasis of matter paragraph:

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2021, the School District adopted GASB Statement no. 84, Fiduciary Activities. Our opinions are not modified with respect to this matter.

Other Reports

Other information that is required to be reported to you is included in the: 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; Independent Auditors' Report on Compliance For Each Major Federal Program; Independent Auditors' Report on Internal Control Over Compliance; Independent Auditors' Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance; and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Report on Required Supplementary Information

We applied certain limited procedures to management's discussion and analysis and the remaining required supplementary information (RSI) as described in the table of contents of the financial statements that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Report on Other Supplementary Information

With respect to the other supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Appendix II

Matters for Management's Consideration

In planning and performing our audit of the financial statements of Armada Area Schools as of and for the year ended June 30, 2021, we considered the School District's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

However, during our audit we became aware of the following matter for management's consideration that is and opportunity for improving compliance. This letter does not affect our report dated date, on the financial statements of Armada Area Schools. Our comment and recommendation regarding the matter is:

Net Cash Resources

As a result of the COVID-19 pandemic and flexibilities awarded related to eligibility and food distribution, meal claim revenues were in excess of anticipated amounts. Additionally, as a result of the required school closure, expenditures did not increase at the same rate as revenues, resulting in fund balance being added to in a short period of time. This resulted in the net cash resources to continue to be in excess of the three-month average expenditure requirement included in the federal regulations. At this time, neither MDE nor USDA has issued a waiver for this compliance requirement. The noncompliance has not been determined to be material to the federal program or the financial statements. In order to resolve the noncompliance, Districts may reduce lunch prices in a manner that is consistent with the paid lunch equity provisions, improve food quality, or take other action designed to improve the program. We recommend that you look at possible enhancements to the program in order to develop a spend down plan to return to compliance with this requirement.