

Athens Area Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

Actuarial Valuations and Assumptions (Continued)

Disabled Members: RP-2014 Male and Female Employee Disabled Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Other Assumptions (OPEB) – applies to individuals hired before September 4, 2012:

Opt-Out Assumption	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.

Additional assumption information includes the following:

- Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2017 valuation. The total pension/OPEB liability as of September 30, 2019 is based on the results of an actuarial valuation date of September 30, 2018, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years – 4.4977 for pension plan employers and 5.7101 for OPEB plan employers.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2019 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Rate of Return on Plan Assets – The long-term expected rate of return on pension/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 pension/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 pension/OPEB plan’s target asset allocation as of September 30, 2019, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic equity pools	28.0%	5.5%
Private equity pools	18.0%	8.6%
International equity pools	16.0%	7.3%
Fixed income pools	10.5%	1.2%
Real estate and infrastructure pools	10.0%	4.2%
Absolute return pools	15.5%	5.4%
Short-term investment pools	<u>2.0%</u>	0.8%
Total	<u>100.0%</u>	

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

Athens Area Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

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

Discount Rate - Discount rates of 6.80% and 6.95% were used to measure the total pension and OPEB liabilities, respectively (6.0% for the Pension Plus 2 plan). These discount rates were based on the long-term expected rates of return on pension and OPEB plan investments of 6.80% and 6.95%, respectively (6.0% for the Pension Plus 2 plan). The projection of cash flows used to determine these discount rates assumed that plan member contributions will be made at the current contribution rates and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on these assumptions, the pension/OPEB plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension/OPEB plan investments was applied to all periods of projected benefits payments to determine the total pension/OPEB liabilities.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the School District's proportionate share of the net pension liability calculated using a discount rate of 6.80% (6.0% for the Pension Plus 2 Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

1% Decrease	Current Single Discount Rate Assumption	1% Increase
<u>5.80% / 5.80% / 5.00%</u>	<u>6.80% / 6.80% / 6.00%</u>	<u>7.80% / 7.80% / 7.00%</u>
<u>\$12,015,087</u>	<u>\$9,241,920</u>	<u>\$6,942,869</u>

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

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 6.95%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

1% Decrease	Current Discount Rate	1% Increase
<u>5.95%</u>	<u>6.95%</u>	<u>7.95%</u>
<u>\$2,485,923</u>	<u>\$2,026,595</u>	<u>\$1,640,887</u>

Athens Area Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate - The following presents the School District's proportionate share of the net OPEB liability calculated using the assumed healthcare cost trend rates, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
<u>\$1,624,534</u>	<u>\$2,026,595</u>	<u>\$2,485,869</u>

Note 12 – Federal and State Grants

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Note 13 – Construction Commitment

The District entered into a construction agreement for the installation of flooring, roof replacement, and lockers with a total estimated cost of \$1,038,425. As of year-end, approximately \$300,000 of costs had been incurred with the remainder to be completed during the 20-21 school year.

Note 14 – Upcoming Accounting and Reporting Changes

Statement No. 87, *Leases*, was issued by the Governmental Accounting Standards Board to increase the usefulness of government financial statements by requiring reporting of certain lease liabilities that currently are not reported as such. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model based on the premise that leases are financings of the right to use the underlying asset. The Statement also addresses standards for note disclosures to include information regarding the timing, significance, and purpose of a government's leasing arrangements. Statement No. 87 will be effective for the District's fiscal year ending June 30, 2022.

Required Supplementary Information

Athens Area Schools
 Budgetary Comparison Schedule - General Fund
 Year Ended June 30, 2020

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Local sources	\$ 1,228,431	\$ 1,308,590	\$ 1,312,849
State sources	3,814,704	3,639,017	3,796,963
Federal sources	186,108	226,286	207,015
Interdistrict and other	254,832	233,396	230,457
Total revenues	5,484,075	5,407,289	5,547,284
Expenditures:			
Instruction:			
Basic programs	2,765,505	2,745,619	2,716,530
Added needs	731,712	797,620	782,620
Support services:			
Pupil	79,962	44,470	43,091
Instructional staff	94,232	79,792	76,316
General administration	77,589	79,317	77,773
School administration	301,145	359,615	363,436
Business	158,422	145,897	136,880
Operation & maintenance	501,830	526,240	491,381
Pupil transportation	383,659	349,878	342,620
Central services	147,364	158,147	158,798
Athletic activities	116,123	139,051	135,539
Community services:			
Community activities	21,308	31,478	4,251
Other	-	500	513
Payments to other public schools	7,500	-	-
Debt service:			
Principal and interest	-	-	0
Capital outlay	-	2,000	1,500
Total expenditures	5,386,351	5,459,624	5,331,248
Revenues Over (Under) Expenditures	97,724	(52,335)	216,036
Other Financing Sources (Uses):			
Transfers in	-	28,000	27,244
Transfers out	(500)	(850)	(957)
Total other financing sources (uses)	(500)	27,150	26,287
Net Changes in Fund Balances	97,224	(25,185)	242,323
Fund Balances - Beginning of Year	1,074,209	1,074,209	1,074,209
Fund Balances - End of Year	\$ 1,171,433	\$ 1,049,024	\$ 1,316,532

Athens Area Schools

Schedule of the District's Proportionate Share of the Net Pension Liability of the MPSERS Plan
Last Six Fiscal Years (Amounts Determined Each Year as of September 30)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of net pension liability (%)	<u>0.027907180%</u>	<u>0.028503500%</u>	<u>0.029549000%</u>	<u>0.029666080%</u>	<u>0.029370350%</u>	<u>0.028680000%</u>
District's proportionate share of net pension liability	<u>\$ 9,241,920</u>	<u>\$ 8,568,667</u>	<u>\$ 7,657,402</u>	<u>\$ 7,401,444</u>	<u>\$ 7,173,716</u>	<u>\$ 6,317,199</u>
District's covered payroll	<u>\$ 2,471,054</u>	<u>\$ 2,379,661</u>	<u>\$ 2,463,933</u>	<u>\$ 2,552,656</u>	<u>\$ 2,497,117</u>	<u>\$ 2,520,799</u>
District's proportionate share of net pension liability as a percentage of its covered payroll	<u>374.01%</u>	<u>360.08%</u>	<u>310.78%</u>	<u>289.95%</u>	<u>287.28%</u>	<u>250.60%</u>
Plan fiduciary net position as a percentage of total pension liability	<u>60.31%</u>	<u>62.36%</u>	<u>64.21%</u>	<u>63.27%</u>	<u>63.17%</u>	<u>66.20%</u>

Athens Area Schools

Schedule of the District's Pension Contributions to the MPSERS Plan
Last Six Fiscal Years (Amounts Determined Each Year as of June 30)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required pension contributions	\$ 777,581	\$ 739,336	\$ 703,243	\$ 691,857	\$ 661,526	\$ 554,197
Contributions in relation to statutorily required contributions	<u>777,581</u>	<u>739,336</u>	<u>703,243</u>	<u>691,857</u>	<u>661,526</u>	<u>554,197</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's employee payroll	<u>\$ 2,555,996</u>	<u>\$ 2,431,578</u>	<u>\$ 2,358,697</u>	<u>\$ 2,636,189</u>	<u>\$ 2,444,226</u>	<u>\$ 2,521,503</u>
Contributions as a percentage of covered-employee payroll	<u>30.42%</u>	<u>30.41%</u>	<u>29.81%</u>	<u>26.24%</u>	<u>27.06%</u>	<u>21.98%</u>

Athens Area Schools

Schedule of the District's Proportionate Share of the Net OPEB Liability of the MPSERS Plan
Last Three Fiscal Years (Amounts Determined as of September 30)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of net OPEB liability (%)	<u>0.02823441%</u>	<u>0.02791319%</u>	<u>0.02964427%</u>
District's proportionate share of net OPEB liability	<u>\$ 2,026,595</u>	<u>\$ 2,218,806</u>	<u>\$ 2,625,140</u>
District's covered payroll	<u>\$ 2,471,054</u>	<u>\$ 2,379,661</u>	<u>\$ 2,463,933</u>
District's proportionate share of net OPEB liability as a percentage of its covered payroll	<u>82.01%</u>	<u>93.24%</u>	<u>106.54%</u>
Plan fiduciary net position as a percentage of total OPEB liability	<u>48.46%</u>	<u>42.95%</u>	<u>36.39%</u>

Athens Area Schools

Schedule of the District's OPEB Contributions to the MPSERS Plan
Last Three Fiscal Years (Amounts Determined as of June 30)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required OPEB contributions	\$ 203,598	\$ 193,988	\$ 188,756
OPEB contributions in relation to statutorily required contributions	<u>203,598</u>	<u>193,988</u>	<u>188,756</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll (OPEB)	<u>\$ 2,555,996</u>	<u>\$ 2,431,578</u>	<u>\$ 2,358,697</u>
OPEB contributions as a percentage of covered payroll	<u>7.97%</u>	<u>7.98%</u>	<u>8.00%</u>

Athens Area Schools

Notes to Required Supplementary Information Pension and OPEB Schedules
Year Ended June 30, 2020

Changes of Benefit Terms: There were no changes of benefit terms in fiscal year 2019.

Changes of Assumptions: For the State's fiscal year ended September 30, 2019:

The actuarial assumption regarding the investment rate of return for MIP and Basic plans changed from 7.05% to 6.80% and for the OPEB plan changed from 7.15% to 6.95% and the rate for Pension Plus decreased to 6.80% from 7.00%.

The healthcare cost trend rate was 7.5% Year 1 graded to 3.50% Year 12, a change in the graded Year 12 from 3.00% in the prior year.

The recognition period for liabilities, an average of the expected remaining service lives of all employees, changed to 4.4977 from 4.5304 for pension plan employers and to 5.7101 from 5.6018 for OPEB plan employers.

Other Supplementary Information

**Athens Area Schools
Balance Sheet
Nonmajor Governmental Funds
June 30, 2020**

	<u>Special Revenue Funds</u>			Total Nonmajor Governmental Funds
	Food Service Fund	Student Activity Fund	Debt Service Fund	
<u>Assets</u>				
Cash and investments	\$ 22,799	\$ 112,654	\$ 17,681	\$ 153,134
Due from other funds	93	-	-	93
Receivable from other governments	76,197	-	-	76,197
Inventories	7,153	-	-	7,153
Total assets	<u>\$ 106,242</u>	<u>\$ 112,654</u>	<u>\$ 17,681</u>	<u>\$ 236,577</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 6,042	\$ -	\$ -	\$ 6,042
Due to other funds	30,303	-	93	30,396
Deferred revenue	5,163	-	-	5,163
Other accrued expenses	6,947	-	-	6,947
Total liabilities	<u>48,455</u>	<u>-</u>	<u>93</u>	<u>48,548</u>
 Fund balances:				
Nonspendable	7,153	-	-	7,153
Restricted:				
Food service activities	50,634	-	-	50,634
Student activities	-	112,654	-	112,654
Debt service	-	-	17,588	17,588
Total fund balances	<u>57,787</u>	<u>112,654</u>	<u>17,588</u>	<u>188,029</u>
Total liabilities and fund balances	<u>\$ 106,242</u>	<u>\$ 112,654</u>	<u>\$ 17,681</u>	<u>\$ 236,577</u>

Athens Area Schools
Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2020

	<u>Food Service</u> <u>Fund</u>	<u>Student Activity</u> <u>Fund</u>	<u>Debt Service</u> <u>Fund</u>	<u>Total-Other</u> <u>Governmental</u> <u>Funds</u>
Revenues:				
Local sources	\$ 29,371	\$ 90,975	\$ 142,970	\$ 263,316
State sources	10,333	-	-	10,333
Federal sources	437,234	-	-	437,234
Total revenues	<u>476,938</u>	<u>90,975</u>	<u>142,970</u>	<u>710,883</u>
Expenditures:				
Food service activities	423,449	-	-	423,449
Student activities	-	93,188	-	93,188
Debt service:				
Principal	-	-	130,000	130,000
Interest and other charges	-	-	7,987	7,987
Total Expenditures	<u>423,449</u>	<u>93,188</u>	<u>137,987</u>	<u>654,624</u>
Revenues Over (Under) Expenditures	<u>53,489</u>	<u>(2,213)</u>	<u>4,983</u>	<u>56,259</u>
Other Financing Sources (Uses):				
Transfers in	957	-	-	957
Transfers out	<u>(27,244)</u>	<u>-</u>	<u>-</u>	<u>(27,244)</u>
Net other financing sources (uses)	<u>(26,287)</u>	<u>-</u>	<u>-</u>	<u>(26,287)</u>
Net Changes in Fund Balance	27,202	(2,213)	4,983	29,972
Fund Balances - Beginning of Year	<u>30,585</u>	<u>114,867</u>	<u>12,605</u>	<u>158,057</u>
Fund Balances - End of Year	<u>\$ 57,787</u>	<u>\$ 112,654</u>	<u>\$ 17,588</u>	<u>\$ 188,029</u>



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CPAS AND CONSULTANTS

**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**

Board of Education
Athens Area Schools
Athens, Michigan

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Athens Area Schools as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Athens Area Schools' basic financial statements and have issued our report thereon dated October 15, 2020.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Education
Athens Area Schools
Athens, Michigan

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Athens Area Schools' financial statements are free of 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 determination of financial statement amounts. 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

October 15, 2020