



**MARCELLUS COMMUNITY SCHOOLS
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2023**

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INDEPENDENT AUDITOR'S REPORT

To the Management and the Board of Education
Marcellus Community Schools
Marcellus, Michigan

Report on the Audit of the Financial Statements***Opinions***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marcellus Community Schools (the "School District") as of and for the year ended June 30, 2023, 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.

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 the School District, as of June 30, 2023, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 School District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the schedules of proportionate share of net pension and OPEB liabilities and contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are 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 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are 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 November 1, 2023, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.



Gabridge & Company, PLC
Grand Rapids, MI
November 1, 2023

Management's Discussion and Analysis

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2023

This section of Marcellus Community School's (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2023. It is to be read in conjunction with the School District's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and is intended to provide the financial results for the fiscal year ending June 30, 2023.

Financial Highlights

- The liabilities and deferred inflows of resources of the School District exceeded its assets and deferred outflows of resources at the close of this fiscal year by \$2,356,685 (shown as a deficit *net position*). The School District had a deficit *unrestricted net position* of (\$8,262,617).
- Revenues of \$11,722,766 exceeded expenses of \$10,226,364 leading to an increase in net position of \$1,496,402 during the year.
- During the year, the School District's fund balances increased by \$19,802 for an ending fund balance of \$4,201,683 across all funds.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,210,926, or 32.9% of the general fund's total expenditures. Fund balance of the general fund *increased* by \$173,191 during the year.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the School District:

- The first two statements, the statement of net position and the statement of activities, are *district-wide financial statements* that provide both short-term and long-term information about the School District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the School District, reporting the School District's operations in more detail than the district-wide statements.
 - *Governmental funds statements* tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

**Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2023**

- *Fiduciary funds statements* provide information about the financial relationships in which the School District acts solely as a trustee or agent for the benefit of others.

The basic financial statements also include the notes to the financial statements that explain the information in the basic financial statements and provide more detailed data. Supplementary information follows and includes combining and individual fund statements, a budgetary comparison schedule for the general fund, and pension and OPEB schedules.

District-wide Financial Statements

The district-wide financial statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School District's assets, deferred inflows / outflows, and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the School District's net position and how they have changed. Net position – the difference between the School District's assets, deferred inflows / outflows, and liabilities - is one way to measure the School District's financial health or position.

Over time, increases or decreases in the School District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the School District's overall health, one should consider additional non-financial factors such as changes in the School District's property tax-base and the condition of school buildings and other facilities.

In the district-wide financial statements, the School District's activities are presented as governmental activities. *Governmental activities* include the School District's basic services, such as regular and special education, instructional support, transportation, administration, community services, food service, and athletics. State aid and property taxes finance most of these activities.

Financial Analysis of the School District as a Whole

The School District's current and other assets decreased by \$98,497 whereas net capital assets decreased by \$182,376. The decrease was caused by a greater decrease in cash and investments versus due from other governmental units. Due from other governmental units increased due mainly to the timing of federal and state monies being collected in July and August of 2023. All components of deferred outflows of resources experienced significant changes during the year; OPEB and pension related outflows increased by \$431,993 and \$2,403,814, respectively, due to investment losses on the respective plans of 4.18% and 4.99% (Pension, OPEB) and 80% of these market losses are being deferred an expensed over the next four years.

**Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2023**

Current and other liabilities decreased by \$89,924 over the previous year is due to the timing of expenses incurred but not paid prior to year-end. Long-term liabilities increased by \$4,512,779; net OPEB and pension liabilities increased by \$261,398 and \$5,167,100, respectively, due to the aforementioned investment losses. OPEB and pension related deferred inflow amounts decreased during the year due to the amortization of prior year deferred pension expenditures combined with the reclassification of prior excess earnings as deferred outflows; the decreases were \$461,658 and \$2,902,665 for OPEB and pension deferred inflows, respectively.

The following schedule summarizes the School Districts net position for each of the past two fiscal years.

Marcellus Community School's Net Position

ASSETS	2023	2022
Current and Other Assets	\$ 4,892,771	\$ 4,991,268
Capital Assets, Net	14,266,954	14,449,330
<i>Total Assets</i>	<u>19,159,725</u>	<u>19,440,598</u>
DEFERRED OUTFLOWS OF RESOURCES		
OPEB Related	1,225,366	793,373
Pension Related	4,391,947	1,988,133
<i>Total Deferred Outflows of Resources</i>	<u>5,617,313</u>	<u>2,781,506</u>
LIABILITIES		
Current and Other Liabilities	1,583,646	1,673,570
Long-term Liabilities	23,479,855	18,967,076
<i>Total Liabilities</i>	<u>25,063,501</u>	<u>20,640,646</u>
DEFERRED INFLOWS OF RESOURCES		
OPEB Related	1,803,328	2,264,986
Pension Related	266,894	3,169,559
<i>Total Deferred Inflows of Resources</i>	<u>2,070,222</u>	<u>5,434,545</u>
NET POSITION		
Net Investment in Capital Assets	5,029,231	4,325,305
Restricted	876,701	1,038,733
Unrestricted	(8,262,617)	(9,217,125)
<i>Total Net Position</i>	<u>\$ (2,356,685)</u>	<u>\$ (3,853,087)</u>

**Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2023**

The results of the fiscal year's operations for the School District as a whole are presented in the statement of activities, which shows the change in total net position for the year. This schedule shows the changes in net position for the past two fiscal years.

Marcellus Community School's Changes in Net Position

Revenues	2023	2022
Program Revenues		
Charges for Services	\$ 214,345	\$ 212,442
Operating Grants and Contributions	3,609,201	3,228,086
Total Program Revenues	3,823,546	3,440,528
General Revenues		
Property Taxes	3,007,406	2,935,020
Unrestricted State Sources	4,845,026	4,786,626
Unrestricted Investment Earnings	46,788	3,944
Total General Revenues	7,899,220	7,725,590
Total Revenues	11,722,766	11,166,118
Expenses		
Instruction	4,937,079	4,308,468
Supporting Services	3,875,008	3,503,910
Food Services	615,721	564,448
Interest on Long-term Debt	326,168	367,330
Unallocated Depreciation	472,388	520,276
Total Expenses	10,226,364	9,264,432
Change in Net Position	1,496,402	1,901,686
<i>Net Position at Beginning of Period</i>	<i>(3,853,087)</i>	<i>(5,754,773)</i>
Net Position at End of Period	\$ (2,356,685)	\$ (3,853,087)

An increase of \$381,115 can be seen year over year in operating grants and contributions. This increase is primarily related to the 147(c) MPERS One-time deposit of \$393,234 (provided to all schools) during fiscal year 2023. Property tax increases can be considered mostly as a result of increased taxable value of property within the district. Unrestricted state sources were \$58,400 more than last year as the foundation allowance increased from \$8,700 in the previous year to \$9,150 per student.

Changes within instruction and supporting services expenses for the School District were largely caused by the changes in net pension liability - pension expense increased roughly \$720,000 compared to the prior year plus an overall increase in activity due to no COVID related restrictions, leading to an overall increase in activity.

**Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2023**

Fund Financial Statements

The fund financial statements provide more detailed information about the School District's funds, focusing on its most significant or "major" funds - not the School District as a whole. Funds are accounting devices the School District uses to keep track of specific sources of funding and spending on particular programs.

The School District utilizes two kinds of funds:

- *Governmental funds*: Most of the School District's basic services are included in governmental funds, which generally focus on: 1) how cash and other financial assets that can readily be converted to cash flow in and out and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Since the district-wide financial statements and the fund financial statements use different methods of accounting to report the School District's financial condition, a reconciliation is included in the financial statements showing the differences between the two types of statements.
- *Fiduciary funds*: The School District is the trustee, or fiduciary, for assets that belong to others, such as scholarship funds and student activities funds. The School District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The School District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the School District's Funds

The School District uses funds to record and analyze financial information. The School District has two major funds: its general fund and the 2014 debt fund.

The *general fund* is the School District's primary operating fund. The general fund had revenues of \$9,923,663 and expenditures of \$9,750,472. The School District ended the year with an increase of \$173,191 in fund balance for a total fund balance of \$3,210,926, up from \$3,037,735 in the prior year. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents approximately 32.9% of total general fund expenditures.

Significant increases and decreases for revenues were within state and federal sources as a result of increased unrestricted state aid and decreased restricted COVID-19 funding. The increase in expenditures was primarily caused by an increase in instruction (basic programs) and supporting

**Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2023**

services expenditures (operations and maintenance and pupil transportation) due to resumed activities and the inception of a capital lease within the School District.

The **2014 debt fund** is used to accumulate resources for the payment of debt service expenditures related to the 2014 building and site improvement bonds. The 2014 debt fund had a decrease in fund balance during the year of \$28,589, bringing its ending fund balance to \$632,112. Given that the debt service millage is intended to service the debt without any surplus, the ending fund balance of the 2014 debt fund will eventually decrease to zero over the life of the bonds; however, an increase in property tax revenue caused the increase the fund balance.

The nonmajor governmental funds had a decrease in fund balance for the year of \$124,800 for total nonmajor governmental fund balances of \$358,645 as of June 30, 2023, down from the balance of \$483,445 in the previous year.

General Fund Budgetary Highlights

During the year the School District revised its budget to attempt to match changes in the school funding environment and current needs of students and faculty. State law requires that budgets be amended during the year so actual expenditures do not exceed appropriations.

Original budget compared to final budget. There were significant amendments made to the original budget for both the original estimated revenues and the original appropriated expenditures. The required supplementary information section houses the budgetary comparison schedule for the general fund, as listed in the table of contents. Results for budgeted to actual results can be examined there in detail.

Final budget compared to actual results. The School District had one expenditure in excess of the amount appropriated during the year ended June 30, 2023: business services (supporting services) with a final budget of \$307,749, an actual amount of \$323,299, and a negative variance of (\$15,550).

Capital Asset and Debt Administration

Capital Assets

At June 30, 2023, the School District had \$14,266,954 invested in capital assets, a 1.3% decrease in the amount reported from the prior year. This net decrease of \$182,376 consisted of capital asset purchases of \$290,012 less depreciation expense of \$472,388.

More detailed information about the School District's capital assets can be found in the notes to the financial statements section of this document.

**Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2023**

Long-term Debt

At year-end, the School District had total long-term debt of \$9,246,366, down from \$10,124,025.

- The School District continued to pay down its debt, retiring \$877,659 of outstanding bonds and capital lease payables during the year.
- The School District's other long-term obligations are for accumulated sick/vacation leave in the amount of \$128,760, down \$3,060 from the prior year.

The State limits the amount of general obligation debt that schools can issue. The School District is well under the State limit as of June 30, 2023.

More detailed information about the School District's long-term debt can be found in the notes to the financial statements section of this document.

Economic Factors and Next Year's Budget and Rates

The School District estimates that approximately \$9.33 million of revenues will be available for appropriation in the general fund in the upcoming budget. The School District continues to review all budget line items for opportunities to reduce expenditures when possible while providing an excellent education to the district it serves. The budget will be monitored during the year to identify any necessary amendments.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact:

Marcellus Community Schools
305 W. Arbor Street
Marcellus, MI 49067
Ph | 269.646.7655

Basic Financial Statements

Marcellus Community Schools
Statement of Net Position
June 30, 2023

	Governmental Activities
ASSETS	
<i>Current Assets</i>	
Cash and Investments	\$ 3,467,305
Accounts Receivable	1,021
Due from Other Governmental Units	1,410,168
Inventory	14,277
Total Current Assets	4,892,771
<i>Noncurrent Assets</i>	
Capital Assets not Being Depreciated	100,000
Capital Assets Being Depreciated, net	14,166,954
Total Assets	19,159,725
DEFERRED OUTFLOWS OF RESOURCES	
OPEB Related	1,225,366
Pension Related	4,391,947
Total Deferred Outflows of Resources	5,617,313
LIABILITIES	
<i>Current Liabilities</i>	
Accounts Payable	159,243
Accrued Liabilities	158,477
Accrued Salaries Payable	371,095
Accrued Interest Payable	62,558
Current Portion of Long-term Debt	830,000
Unearned Revenue	2,273
Total Current Liabilities	1,583,646
<i>Noncurrent Liabilities</i>	
Net OPEB Liability	826,025
Net Pension Liability	14,108,704
Compensated Absences	128,760
Long-term Debt	8,416,366
Total Liabilities	25,063,501
DEFERRED INFLOWS OF RESOURCES	
OPEB Related	1,803,328
Pension Related	266,894
Total Deferred Inflows of Resources	2,070,222
NET POSITION	
Net Investment in Capital Assets	5,029,231
<i>Restricted for:</i>	
Food Service	211,801
Debt Service	632,112
Capital Projects	32,788
<i>Unrestricted</i>	(8,262,617)
Total Net Position	\$ (2,356,685)

The Notes to the Financial Statements are an integral part of these Financial Statements

**Marcellus Community Schools
Statement of Activities
For the Year Ended June 30, 2023**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 4,937,079	\$ --	\$ 261,797	\$ --	\$ (4,675,282)
Supporting Services	3,875,008	198,980	2,745,351	--	(930,677)
Food Services	615,721	15,365	602,053	--	1,697
Interest on Long-term Debt	326,168	--	--	--	(326,168)
Unallocated Depreciation	472,388	--	--	--	(472,388)
<i>Total Governmental Activities</i>	<u>\$ 10,226,364</u>	<u>\$ 214,345</u>	<u>\$ 3,609,201</u>	<u>\$ --</u>	<u>\$ (6,402,818)</u>
General Purpose Revenues:					
					1,848,551
					1,158,855
					4,845,026
					46,788
					<u>7,899,220</u>
					1,496,402
					(3,853,087)
					<u>\$ (2,356,685)</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**Marcellus Community Schools
Balance Sheet
Governmental Funds
June 30, 2023**

	<u>Debt Service</u>		<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>2014 Debt Fund</u>		
ASSETS				
Cash and Investments	\$ 2,611,832	\$ 631,091	\$ 224,382	\$ 3,467,305
Accounts Receivable	--	1,021	--	1,021
Due from Other Governmental Units	1,410,168	--	--	1,410,168
Inventory	--	--	14,277	14,277
Due from Other Funds	--	--	139,946	139,946
Total Assets	<u>\$ 4,022,000</u>	<u>\$ 632,112</u>	<u>\$ 378,605</u>	<u>\$ 5,032,717</u>
LIABILITIES				
Accounts Payable	\$ 141,556	\$ --	\$ 17,687	\$ 159,243
Accrued Liabilities	158,477	--	--	158,477
Accrued Salaries Payable	371,095	--	--	371,095
Unearned Revenue	--	--	2,273	2,273
Due to Other Funds	139,946	--	--	139,946
Total Liabilities	<u>811,074</u>	<u>--</u>	<u>19,960</u>	<u>831,034</u>
FUND BALANCE				
Nonspendable for:				
Inventory	--	--	14,277	14,277
Restricted for:				
Debt Service	--	632,112	--	632,112
Food Services	--	--	197,524	197,524
Capital Projects	--	--	41,431	41,431
Committed for:				
Student Activities	--	--	105,413	105,413
Unassigned	3,210,926	--	--	3,210,926
Total Fund Balance	<u>3,210,926</u>	<u>632,112</u>	<u>358,645</u>	<u>4,201,683</u>
Total Liabilities and Fund Balance	<u>\$ 4,022,000</u>	<u>\$ 632,112</u>	<u>\$ 378,605</u>	<u>\$ 5,032,717</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Marcellus Community Schools
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2023

Total Fund Balance - Governmental Funds	\$	4,201,683
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statement. This amount represents capital assets of \$24,606,854 less of accumulated depreciation of \$10,339,900.		14,266,954
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.		(9,983,651)
The net OPEB liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.		(1,403,987)
Accrued interest is not due and payable in the current period and, therefore, is not reported in the funds.		(62,558)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. This amount represents the sum of bonds payable, including unamortized bond premium, of \$9,246,366 and compensated absences of \$128,760.		(9,375,126)
Total Net Position - Governmental Activities	\$	<u>(2,356,685)</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Marcellus Community Schools
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2023

	<u>Debt Service</u>		<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>2014 Debt Fund</u>		
Revenues				
Local Sources	\$ 1,996,339	\$ 1,181,863	\$ 15,815	\$ 3,194,017
State Sources	7,175,603	--	21,588	7,197,191
Federal Sources	625,807	--	579,837	1,205,644
Interdistrict Sources and Other	125,914	--	--	125,914
Total Revenues	<u>9,923,663</u>	<u>1,181,863</u>	<u>617,240</u>	<u>11,722,766</u>
Expenditures				
Instruction	5,496,931	--	--	5,496,931
Supporting Services	4,253,541	--	1,288	4,254,829
Food Services	--	--	708,222	708,222
Capital Outlay	--	--	32,530	32,530
Debt Service, Principal	--	795,000	--	795,000
Debt Service, Interest	--	415,452	--	415,452
Total Expenditures	<u>9,750,472</u>	<u>1,210,452</u>	<u>742,040</u>	<u>11,702,964</u>
Excess of Revenues Over (Under) Expenditures	<u>173,191</u>	<u>(28,589)</u>	<u>(124,800)</u>	<u>19,802</u>
Net Change in Fund Balance	<u>173,191</u>	<u>(28,589)</u>	<u>(124,800)</u>	<u>19,802</u>
<i>Fund Balance at Beginning of Period</i>	3,037,735	660,701	483,445	4,181,881
Fund Balance at End of Period	<u>\$ 3,210,926</u>	<u>\$ 632,112</u>	<u>\$ 358,645</u>	<u>\$ 4,201,683</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Marcellus Community Schools
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended June 30, 2023

Total Net Change in Fund Balances - Governmental Funds	\$	19,802
In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.		89,284
Some expenses, such as compensated absences, reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		3,060
The statement of net position reports the net pension liability and pension related deferrals related to the net pension liability as pension expense. However, the expenditures recorded on the governmental funds equals actual pension contributions.		139,379
Repayments of principal on long-term debt are expenditures in the governmental funds, but the repayments reduce the long-term liabilities in the statement of net position.		795,000
The statement of net position reports the net OPEB liability and OPEB related deferrals related to the net OPEB liability as OPEB expense. However, the expenditures recorded on the governmental funds equals actual OPEB contributions.		632,253
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This represents current year depreciation expense of \$472,388 less capital outlay of \$290,012.		(182,376)
Changes in Net Position - Governmental Activities	\$	<u>1,496,402</u>

**Marcellus Community Schools
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2023**

	Private Purpose Trust
	Scholarship Fund
ASSETS	
Cash and Investments	\$ 24,824
<i>Total Assets</i>	24,824
LIABILITIES	
<i>Total Liabilities</i>	--
NET POSITION	
Restricted for Scholarships	24,824

The Notes to the Financial Statements are an integral part of these Financial Statements

Marcellus Community Schools
Statement of Change in Fiduciary Net Position
Fiduciary Fund
For the Year Ended June 30, 2023

	Private Purpose Trust
ADDITIONS	Scholarship Fund
Investment Earnings	\$ 63
Other Income	500
<i>Total Additions</i>	563
DEDUCTIONS	
Scholarships Awarded	4,000
<i>Total Deductions</i>	4,000
<i>Net Increase (Decrease) in Net Position</i>	(3,437)
<i>Net Position at Beginning of Period</i>	28,261
<i>Net Position at End of Period</i>	\$ 24,824

The Notes to the Financial Statements are an integral part of these Financial Statements

Notes to the Financial Statements

Marcellus Community Schools

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Marcellus Community Schools (the “School District”) conform to generally accepted accounting principles as applicable to Schools. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District’s significant accounting policies are described below.

Reporting Entity

The Board of Education, a seven-member group, is the level of government which has governance responsibilities over all activities related to public elementary, middle, and high school education within the jurisdiction of the School District. The School District receives funding from state and federal government sources and must comply with the requirements of these funding source entities. The School District has no component units.

District-wide and Fund 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 non-fiduciary 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* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted state aid and other items not properly included among program revenues are reported instead as *general revenues*.

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.

Marcellus Community Schools

Notes to the Financial Statements

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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Agency funds also use the accrual basis of accounting, but do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or one year for reimbursement-based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues susceptible to accrual are state aid, federal revenues, and interest income and, accordingly, have been recognized as revenues of the current fiscal year. Other revenues are recognized when received.

The School District reports the following major funds:

The ***general fund*** is the general operating fund of the School. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

The ***2014 debt fund*** is used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt related to the School District's 2014 building and site improvement bonds.

Additionally, the School District reports the following fund types:

The ***special revenue funds*** are used to account for the proceeds of specified purposes. The School District's special revenue funds include the food service fund. Operating deficits generated by these activities are generally covered by a transfer from the general fund.

Marcellus Community Schools

Notes to the Financial Statements

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 **sinking fund** is used to record the sinking fund property tax levy and other revenue and the disbursement of invoices specifically for acquiring new school sites, construction, or repair of school buildings.

Capital project funds are used to record bond proceeds or other revenue and the disbursement of invoices specifically for acquiring new school sites, building, equipment, and for remodeling and repairs. These funds are kept open until the purpose for which the fund was created has been accomplished.

Fiduciary funds account for a trust fund, the Scholarship Fund, which is a private purpose trust fund maintained to record the segregated monies restricted for scholarships and the related transactions for distributions of awards.

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law for the general fund and special revenue funds. Annual appropriations lapse at fiscal year-end.

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

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

Marcellus Community Schools

Notes to the Financial Statements

5. Formal budgetary integration is employed as a management control device during the year for the general fund and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to fiscal year-end.

State Revenue

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a State-wide formula. The foundation allowance is funded from a combination of State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2023, the foundation allowance was based on pupil membership counts taken in October 2022 and February 2023.

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

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

Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied and become a lien as of December 1 and are due upon receipt of the billing by the taxpayer and becomes a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. Property taxes uncollected as of March 1 are purchased by the Counties of Cass, St. Joseph, and Van Buren and remitted to the School District by May 15. Assessed values are established annually by the various governmental units within the School District and are equalized by the State of Michigan.

Marcellus Community Schools

Notes to the Financial Statements

For the year ended June 30, 2023, the School District levied the following amounts per \$1,000 of assessed valuation:

General fund – non-principal residence	18.000 mills
Debt funds – all taxable values	4.800 mills

Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Fund Equity

Deposits and Investments

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

State statutes and School District policy authorize the School District to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by the surplus funds investment pool act, Act. No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.

Investments are stated at fair market value. Investments are exposed to various risks, such as significant external events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the

Marcellus Community Schools

Notes to the Financial Statements

fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as “due to/from other funds” (i.e., the current portion of interfund loans).

All receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. No amounts have been deemed uncollectable during the current year.

Inventory

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

Capital Assets

Capital assets, which include land, buildings and improvements, equipment and furniture, and buses and other vehicles, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset’s useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and Improvements	15 - 50
Equipment and Furniture	5 - 50
Buses and Other Vehicles	5 - 10

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of*

Marcellus Community Schools

Notes to the Financial Statements

resources, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School District has one item that qualifies for reporting in this category. It is the pension and other postemployment benefits related items reporting in the government-wide statement of net position.

Salaries Payable and Accrued Employee Benefits

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the School District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for the employee health insurance premiums for the months of July and August. The School District pays these insurances for this period as part of the compensation for services rendered in the preceding school year.

Compensated Absences

Sick days are earned by teachers and administrators. Retiring employees who meet certain years of service requirements are paid for accumulated sick days up to a maximum number of days and at a rate determined by their contracts. There is no contractual provision for payment of unused vacation. They may be used for vacation only.

The liability for compensated absences report in the district-wide financial statements consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for employees who currently are eligible to receive termination payments. The amount reported is salary-related and includes fringe benefits.

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bond issuance costs are recorded as a period expense. Bonds payable are reported at the total amount of bonds issued.

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

Pension

Marcellus Community Schools

Notes to the Financial Statements

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 District Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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 (OPEB)

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 District Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The School District has three items that qualify for reporting in this category. The first is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension and other postemployment benefit contributions subsequent to the measurement period. The second and third items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either: a) not in spendable form or b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. The School District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Marcellus Community Schools

Notes to the Financial Statements

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

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

Unassigned fund balance is the residual classification for the School District's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the Board of Education.

Fund Balance Flow Assumptions

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

Net Position Flow Assumption

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

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

Marcellus Community Schools

Notes to the Financial Statements

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, deferred outflows/inflows of resources, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 2 - Stewardship, Compliance, and Accountability

Excess of Expenditures over Appropriations

Michigan law provides that a local unit shall not incur expenditures in excess of the amount appropriated. The School District's actual expenditures and budgeted expenditures for the budgeted funds have been shown at the department level. The approved budgets of the School District for these budgeted funds were also adopted at the department level.

Excess of Expenditures Over Appropriations in Budgeted Funds

The School District had one expenditure in excess of the amount appropriated during the year ended June 30, 2023: business services (supporting services) with a final budget of \$307,749, an actual amount of \$323,299, and a negative variance of (\$15,550).

District-wide Deficits

The School District has an unrestricted net position deficit for district-wide activities in the amount of (\$8,262,617) and a deficit total net position of (\$2,356,685) as of June 30, 2023. The primary cause for the unrestricted net position deficit is the School District's net pension liability and net OPEB liability.

Sinking Fund Compliance

The sinking fund records capital project activities funded with a sinking fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

Compliance - Bond Proceeds

The capital project fund 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.

Marcellus Community Schools

Notes to the Financial Statements

The following is a summary of the revenue and expenditures in the 2014 Capital Project Fund from inception through the current fiscal year:

	2014 Capital Projects Fund
Fund Balance at Beginning of Period	\$ 8,643
Revenues	-
Expenditures	-
Fund Balance at End of Period	\$ 8,643

Note 3 - Deposits and Investments

A reconciliation of cash and investments as shown on the statement of net position follows:

Statement of Net Position	
Cash and Investments	\$ 3,467,305
Statement of Fiduciary Net Position	
Cash and Investments	24,824
Total Cash and Investments	\$ 3,492,129
Deposits and Investments	
Checking and Savings Accounts	\$ 1,630,853
Pooled Investments (MILAF)	1,861,276
Total Deposits and Investments	\$ 3,492,129

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits might not be returned. State law does not require, and the School District does not have a policy for deposit custodial credit risk. As of year-end, \$1,268,690 of the School District's bank balance of \$1,768,690 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the School District believes it is impractical to insure all bank deposits. As a result, the School District evaluates each financial institution with which it deposits School District funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In order to minimize this risk, School District policy limits the types of investments and pre-qualifies financial institutions. As of June 30, 2023, none of the School District's investments were exposed to custodial credit risk since the securities are held in the School District's name by the counterparty.

Marcellus Community Schools

Notes to the Financial Statements

The School District's investments consisted of the Michigan Liquid Asset Fund in the amount of \$1,861,276, as of June 30, 2023.

Credit Risk. State law limits investments to specific government securities, certificates of deposits, and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The School District's investment policy does not have specific limits in excess of state law on investment credit risk. The School District's only investment, the Michigan Liquid Asset Fund, is rated AAAM by the S&P with a fair market value of \$1,861,276.

Interest Rate Risk. Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The School District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The School District had no investments with maturities.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The School District's investment policy does not limit investments in a single financial institution of a single security type (with the exception of U.S. treasuries and agencies and authorized pools) to a percentage of the total investment portfolio. All investments held at year-end are reported above.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs.

There are three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. Unobservable

Marcellus Community Schools

Notes to the Financial Statements

inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

As of June 30, 2023, the fair value measurements of investments were limited to the Michigan Liquid Asset Fund assets with a fair market value of \$1,861,276 and were all classified as Level 2.

Note 4 - Interfund Receivables and Payables

At June 30, 2023, interfund receivables and payables consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor Governmental Funds	General	\$ 139,946

Interfund balances resulted primarily from the time lag between the dates that: 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Note 5 - Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned revenue include charges for services payments received prior to meeting all eligibility requirements in the amount of \$2,273.

Note 6 - State of Michigan School Aid

The School District reports State of Michigan school aid in the fiscal year in which the School District is entitled to the revenue as provided by State of Michigan School aid appropriation acts. State funding provided approximately 61.4% of the total revenues to the School District during the June 30, 2023 fiscal year.

Marcellus Community Schools

Notes to the Financial Statements

Note 7 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not Being Depreciated:				
Land	\$ 100,000	\$ -	\$ -	\$ 100,000
Capital Assets Being Depreciated:				
Buildings and Improvements	21,753,744	124,523	-	21,878,267
Equipment and Furniture	1,345,128	116,049	-	1,461,177
Buses and Other Vehicles	1,117,970	49,440	-	1,167,410
<i>Subtotal</i>	<u>24,216,842</u>	<u>290,012</u>	<u>-</u>	<u>24,506,854</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(8,039,144)	(386,308)	-	(8,425,452)
Equipment and Furniture	(962,436)	(57,892)	-	(1,020,328)
Buses and Other Vehicles	(865,932)	(28,188)	-	(894,120)
<i>Subtotal</i>	<u>(9,867,512)</u>	<u>(472,388)</u>	<u>-</u>	<u>(10,339,900)</u>
Capital Assets Being Depreciated, net	<u>14,349,330</u>	<u>(182,376)</u>	<u>-</u>	<u>14,166,954</u>
Capital Assets, net	<u>\$ 14,449,330</u>	<u>\$ (182,376)</u>	<u>\$ -</u>	<u>\$ 14,266,954</u>

Depreciation expense for the fiscal year amounted to \$472,388 unallocated as the School District determined that it was impractical to allocate all depreciation expense to the various government activities as the capital assets serve multiple functions.

Note 8 - Long-term Obligations

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. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Bonds Payable

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

2014 Building and Site Bonds

\$11,785,000 building and site bonds due in annual installments of \$25,000 to \$1,105,000 through May 2032 with interest ranging from 4.00% to 5.00%. As of June 30, 2023, the balance was \$9,530,000.

Marcellus Community Schools

Notes to the Financial Statements

Long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds Payable					
<i>Direct Placement Bonds</i>					
2014 Building and Site Bonds	\$ 9,530,000	\$ -	\$ (795,000)	\$ 8,735,000	\$ 830,000
Bond Premiums and Discounts					
Unamortized Bond Premium	594,025	-	(82,659)	511,366	-
<i>Total Bonds Payable</i>	<u>10,124,025</u>	<u>-</u>	<u>(877,659)</u>	<u>9,246,366</u>	<u>830,000</u>
Compensated Absences	131,820	-	(3,060)	128,760	-
Total Long-term Obligations	<u>\$ 10,255,845</u>	<u>\$ -</u>	<u>\$ (880,719)</u>	<u>\$ 9,375,126</u>	<u>\$ 830,000</u>

For governmental activities, compensated absences are primarily liquidated by the general fund where as the general obligation bonds are payable from the debt service funds. Future debt and interest will be payable from future tax levies.

Annual debt service requirements, exclusive of compensated absences and bond premiums and discounts, for long-term debt outstanding are as follows:

Year Ending	Principal	Interest	Total
<u>June 30,</u>			
2024	\$ 830,000	\$ 375,350	\$ 1,205,350
2025	865,000	333,850	1,198,850
2026	900,000	290,600	1,190,600
2027	940,000	245,600	1,185,600
2028	975,000	208,000	1,183,000
2029 - 2032	4,225,000	429,200	4,654,200
Totals	<u>\$ 8,735,000</u>	<u>\$ 1,882,600</u>	<u>\$ 10,617,600</u>

Compensated Absences

Accrued compensated absences at year-end consist of \$128,760 of accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Marcellus Community Schools

Notes to the Financial Statements

Note 9 - Net Investment in Capital Assets

As of June 30, 2023, net investment in capital assets was comprised of the following:

Capital Assets, net of Depreciation	\$ 14,266,954
Capital Related Debt:	
Bonds Payable	(8,735,000)
Unamortized Bond Premium	(511,366)
Unexpended Bond Proceeds in Capital Projects Funds	8,643
Total Capital Related Debt	<u>(9,237,723)</u>
Net Investment in Capital Assets	<u>\$ 5,029,231</u>

Note 10 - Pension Plan

Plan Description

The Michigan Public School District Employees' Retirement System ("System" or "MPSERS") is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan and a fiduciary component unit of 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 District 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 District Employees' Retirement Act (1980 PA 300 as amended).

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

The System's financial statements are available on the ORS website at [Michigan.gov/ORSSchool Districts](https://www.michigan.gov/ORSSchoolDistricts).

Marcellus Community Schools

Notes to the Financial Statements

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 District 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.

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, 2021, valuation will be amortized over a 17-year period beginning Oct. 1, 2021 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2022:

<u>Benefit Structure</u>	<u>Member</u>	<u>Non-Universities</u>
Basic	0.0 - 4.0%	20.14%
Member Investment Plan	3.0 - 7.0%	20.14%
Pension Plus	3.0 - 6.4%	17.22%
Pension Plus 2	6.2%	19.93%
Defined Contribution	0.0%	13.73%

Required contributions to the pension plan from the School District were \$1,276,837 for the year ended September 30, 2022.

Marcellus Community Schools

Notes to the Financial Statements

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

At June 30, 2023, the School District reported a liability of \$14,108,704 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2020. 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, 2021, the School District’s proportion was 0.03751 percent, which was a decrease of 0.00025 percent from its proportion measured as of September 30, 2021.

For the year ending June 30, 2023, the School District recognized pension expense of \$1,695,509. At June 30, 2023, 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
Differences between Actual and Expected Experience	\$ 141,136	\$ 31,546
Changes of Assumptions	2,424,381	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	33,085	-
Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions	112,011	235,348
Employer Contributions Subsequent to the Measurement Date	1,681,334	
<i>Total</i>	\$ 4,391,947	\$ 266,894

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 ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year Ended September 30	Amount
2023	\$ 726,682
2024	497,867
2025	417,970
2026	801,200

Marcellus Community Schools

Notes to the Financial Statements

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, 2021
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	
- MIP and Basic Plans:	6.00%, net of investment expenses
- Pension Plus Plan:	6.00%, 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:	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Notes:

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, 2018 valuation. The total pension liability as of September 30, 2022, is based on the results of an actuarial valuation date of September 30, 2021, and rolled forward using generally accepted actuarial procedures, including the experience study.

Marcellus Community Schools

Notes to the Financial Statements

Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.3922 for non-university employers.

Recognition period for assets in years is 5.0000.

Full actuarial assumptions are available in the 2022 MPSERS Annual Comprehensive Financial Report found on the ORS website at [Michigan.gov/ORSSchool Districts](http://Michigan.gov/ORSSchoolDistricts).

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, 2022, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	25.0%	5.1%
Private Equity Pools	16.0	8.7
International Equity Pools	15.0	6.7
Fixed Income Pools	13.0	(0.2)
Real Estate and Infrastructure Pools	10.0	5.3
Absolute Return Pools	9.0	2.7
Real Return/Opportunistic Pools	10.0	5.8
Short-term Investment Pools	2.0	(0.5)
<i>Total</i>	100.0%	

*Long-term rates of return are net of administrative expenses and 2.2% inflation.

Rate of Return

For the fiscal year ended September 30, 2022, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was (4.18%). The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Marcellus Community Schools

Notes to the Financial Statements

Discount Rate

A discount rate of 6.00% was used to measure the total pension liability (6.00% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan, 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 6.00% (6.00% for the Pension Plus plan, 6.00% 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 of 6.00% (6.00% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

1% Decrease (Non-Hybrid/Hybrid) 5.00%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 6.00%	1% Increase (Non-Hybrid/Hybrid) 7.00%
\$18,618,248	\$14,108,704	\$10,392,637

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS ACFR, available on the ORS website at [Michigan.gov/ORSSchool Districts](http://Michigan.gov/ORSSchoolDistricts).

Note 11 - Postemployment Benefits Other Than Pensions (OPEB)

Plan Description

The Michigan Public School District Employees' Retirement System ("System" or "MPERS") is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan and a fiduciary component unit of 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

Marcellus Community Schools

Notes to the Financial Statements

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 District Employees' Retirement Act (1980 PA 300 as amended).

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

The System's financial statements are available on the ORS website at [Michigan.gov/ORSSchool Districts](http://Michigan.gov/ORSSchoolDistricts).

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 Jan. 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 District 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

Marcellus Community Schools

Notes to the Financial Statements

a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2021, valuation will be amortized over a 17-year period beginning Oct. 1, 2021 and ending September 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for fiscal year ended September 30, 2022:

Benefit Structure	Member	Non-Universities
Premium Subsidy	3.00%	8.09%
Personal Healthcare Fund (PHF)	0.00%	7.23%

Required contributions to the OPEB plan from the School District were \$297,069 for the year ended September 30, 2022.

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

At June 30, 2023, the School District reported a liability of \$826,025 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2021. 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, 2022, the School District's proportion was 0.03900%, which was an increase of 0.00201% from its proportion measured as of October 1, 2021.

Marcellus Community Schools

Notes to the Financial Statements

For the year ending June 30, 2023, the School District recognized OPEB expense of negative (\$314,758). At June 30, 2023, 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
Differences between Actual and Expected Experience	\$ -	\$ 1,617,867
Changes of Assumptions	736,263	59,951
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	64,560	-
Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions	172,274	125,510
Employer Contributions Subsequent to the Measurement Date	252,269	-
<i>Total</i>	\$ 1,225,366	\$ 1,803,328

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, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Plan Year Ended September 30	Amount:
2023	\$ (299,759)
2024	(261,270)
2025	(242,328)
2026	(29,650)
2027	(1,272)
Thereafter	4,048

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.

Marcellus Community Schools

Notes to the Financial Statements

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2021
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	6.00%, net of investment expenses
Projected Salary Increases:	2.75 - 11.55%, including wage inflation at 2.75%
Healthcare Cost Trend Rate:	Pre-65: 7.75% Year 1 graded to 3.5% Year 15; 3.0% Year 120 Post-65: 5.25% Year 1 graded to 3.5% Year 15; 3.0% Year 120
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:	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Other Assumptions:	
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.

Notes:

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, 2018 valuation. The total OPEB liability as of September. 30, 2022, is based on the results of an actuarial valuation date of September. 30, 2021, 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: 6.2250 for non-university employers.

Recognition period for assets in years is 5.0000.

Marcellus Community Schools

Notes to the Financial Statements

Full actuarial assumptions are available in the 2022 MPSERS Annual Comprehensive Financial Report found on the ORS website at [Michigan.gov/ORSSchool Districts](https://Michigan.gov/ORSSchoolDistricts).

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, 2022, 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	25.0%	5.1%
Private Equity Pools	16.0	8.7
International Equity Pools	15.0	6.7
Fixed Income Pools	13.0	(0.2)
Real Estate and Infrastructure Pools	10.0	5.3
Absolute Return Pools	9.0	2.7
Real Return/Opportunistic Pools	10.0	5.8
Short-term Investment Pools	2.0	(0.5)
<i>Total</i>	100.0%	

*Long-term rates of return are net of administrative expenses and 2.2% inflation.

Rate of Return

For the fiscal year ended September. 30, 2022, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was (4.99%). 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 6.00% 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 6.00%. 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

Marcellus Community Schools

Notes to the Financial Statements

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 6.00%, 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	Current Discount Rate	1% Increase
5.00%	6.00%	7.00%
\$1,385,578	\$826,025	\$354,813

Sensitivity of the School District's proportionate share of the net OPEB liability to Healthcare Cost Trend Rate

The following presents the School District's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the School District's proportionate share of 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
\$345,900	\$826,025	\$1,364,976

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2022 MPSERS ACFR, available on the ORS website at [Michigan.gov/ORSSchool Districts](https://Michigan.gov/ORSSchoolDistricts).

Note 12 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the School District carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

Marcellus Community Schools

Notes to the Financial Statements

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 - Subsequent Events and Commitments

The Administration and Board of Education is not aware of any subsequent events that would have a significant impact on the financial condition of the School District.

Required Supplementary Information

Marcellus Community Schools
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2023

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative)
				Final to Actual
Revenues				
Local Sources	\$ 1,938,794	\$ 1,994,944	\$ 1,996,339	\$ 1,395
State Sources	6,203,904	7,094,793	7,175,603	80,810
Federal Sources	719,021	656,676	625,807	(30,869)
Interdistrict Sources and Other	32,120	5,636	125,914	120,278
Total Revenues	<u>8,893,839</u>	<u>9,752,049</u>	<u>9,923,663</u>	<u>171,614</u>
Expenditures				
Instruction				
Basic Programs	3,993,771	4,628,781	4,435,809	192,972
Added Needs	801,300	1,122,430	1,061,122	61,308
Total Instruction	<u>4,795,071</u>	<u>5,751,211</u>	<u>5,496,931</u>	<u>254,280</u>
Supporting Services				
Pupil Support	349,708	377,379	377,873	(494)
Instructional Staff Support	179,750	178,671	165,129	13,542
General Administration	246,809	284,720	277,686	7,034
School Administration	876,556	814,644	780,529	34,115
Business Services	242,888	307,749	323,299	(15,550)
Operations and Maintenance	1,074,468	1,277,003	1,233,407	43,596
Pupil Transportation	470,890	640,512	616,967	23,545
Other Central Support	477,063	486,318	478,651	7,667
Total Supporting Services	<u>3,918,132</u>	<u>4,366,996</u>	<u>4,253,541</u>	<u>113,455</u>
Total Expenditures	<u>8,713,203</u>	<u>10,118,207</u>	<u>9,750,472</u>	<u>367,735</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>180,636</u>	<u>(366,158)</u>	<u>173,191</u>	<u>539,349</u>
Net Change in Fund Balance	<u>180,636</u>	<u>(366,158)</u>	<u>173,191</u>	<u>539,349</u>
<i>Fund Balance at Beginning of Period</i>	3,037,735	3,037,735	3,037,735	--
Fund Balance at End of Period	<u>\$ 3,218,371</u>	<u>\$ 2,671,577</u>	<u>\$ 3,210,926</u>	<u>\$ 539,349</u>

Marcellus Community Schools
Schedule of School District's Proportionate Share of Net Pension Liability
Michigan Public School Employee Retirement Plan
Last Nine Fiscal Years (amounts were determined as of September 30 of each fiscal year)

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School District's Portion of Net Pension Liability (%)	0.03751%	0.03777%	0.03866%	0.03747%	0.03738%	0.03785%	0.03786%	0.03560%	0.03562%
School District's Proportionate Share of Net Pension Liability	\$ 14,108,704	\$ 8,941,604	\$ 13,280,601	\$ 12,407,725	\$ 11,238,389	\$ 9,808,435	\$ 9,445,551	\$ 8,951,606	\$ 7,845,847
School District's Covered Payroll	\$ 3,821,018	\$ 3,349,856	\$ 3,455,027	\$ 3,305,726	\$ 3,158,684	\$ 3,157,887	\$ 3,225,254	\$ 2,982,638	\$ 3,037,513
School District's Proportionate Share of Net Pension Liability as a Percentage of its Covered Payroll	369.24%	266.93%	384.38%	375.34%	355.79%	310.60%	292.86%	300.12%	258.30%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	60.77%	72.60%	59.72%	60.31%	62.36%	64.21%	63.27%	63.17%	66.20%

Marcellus Community Schools
Schedule of School District's Pension Contributions
Michigan Public School Employee Retirement Plan
Last Nine School District Fiscal Years (amounts determined as of June 30 of each year)

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily Required Contributions	\$ 1,276,837	\$ 1,134,015	\$ 1,062,465	\$ 995,319	\$ 1,017,982	\$ 887,774	\$ 850,147	\$ 577,808	\$ 710,987
Contributions in Relation to Statutorily Required Contributions	(1,276,837)	(1,134,015)	(1,062,465)	(995,319)	(1,017,982)	(887,774)	(850,147)	(577,808)	(710,987)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's Covered Payroll	\$ 4,248,770	\$ 3,674,138	\$ 3,354,170	\$ 3,391,192	\$ 3,276,403	\$ 3,145,552	\$ 3,135,365	\$ 3,029,366	\$ 3,231,954
Contributions as a Percentage of Covered Payroll	30.05%	30.86%	31.68%	29.35%	31.07%	28.22%	27.11%	19.07%	22.00%

Marcellus Community Schools
Schedule of School District's Proportionate Share of Net OPEB Liability
Michigan Public School Employee Retirement Plan
Last Six Fiscal Years (amounts were determined as of September 30 of each fiscal year)

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
School District's Portion of Net OPEB Liability (%)	0.03900%	0.03699%	0.03907%	0.03789%	0.03714%	0.03787%
School District's Proportionate Share of Net OPEB Liability	\$ 826,025	\$ 564,627	\$ 2,093,293	\$ 2,719,430	\$ 2,952,406	\$ 3,353,840
School District's Covered Payroll	\$ 3,821,018	\$ 3,349,856	\$ 3,455,027	\$ 3,305,726	\$ 3,158,684	\$ 3,157,887
School District's Proportionate Share of Net OPEB Liability as a Percentage of its Covered Payroll	21.62%	16.86%	60.59%	82.26%	93.47%	106.21%
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	83.09%	87.33%	59.44%	48.46%	42.95%	36.39%

Marcellus Community Schools
Schedule of School District's OPEB Contributions
Michigan Public School Employee Retirement Plan
Last Six School District Fiscal Years (amounts determined as of June 30 of each year)

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily Required Contributions	\$ 297,069	\$ 274,603	\$ 276,067	\$ 260,135	\$ 241,088	\$ 294,858
Contributions in Relation to Statutorily Required Contributions	<u>(297,069)</u>	<u>(274,603)</u>	<u>(276,067)</u>	<u>(260,135)</u>	<u>(241,088)</u>	<u>(294,858)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's Covered Payroll	\$ 4,248,770	\$ 3,674,138	\$ 3,354,170	\$ 3,391,192	\$ 3,276,403	\$ 3,145,552
Contributions as a Percentage of Covered Payroll	6.99%	7.47%	8.23%	7.67%	7.36%	9.37%

Combining and Individual Fund Statements and Schedules

**Marcellus Community Schools
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2023**

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Capital Projects</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service Fund</u>	<u>Student Activities</u>	<u>2007 Refunding Debt Fund</u>	<u>Sinking Fund</u>	<u>2014 Capital Projects Fund</u>	
ASSETS						
Cash and Investments	\$ 74,764	\$ 108,187	\$ --	\$ 32,788	\$ 8,643	\$ 224,382
Inventory	14,277	--	--	--	--	14,277
Due from Other Funds	139,946	--	--	--	--	139,946
<i>Total Assets</i>	<u>\$ 228,987</u>	<u>\$ 108,187</u>	<u>\$ --</u>	<u>\$ 32,788</u>	<u>\$ 8,643</u>	<u>\$ 378,605</u>
LIABILITIES						
Accounts Payable	\$ 14,913	\$ 2,774	\$ --	\$ --	\$ --	\$ 17,687
Unearned Revenue	2,273	--	--	--	--	2,273
<i>Total Liabilities</i>	<u>17,186</u>	<u>2,774</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>19,960</u>
FUND BALANCE						
Nonspendable	14,277	--	--	--	--	14,277
Restricted	197,524	--	--	32,788	8,643	238,955
Committed	--	105,413	--	--	--	105,413
Unassigned	--	--	--	--	--	--
<i>Total Fund Balance</i>	<u>211,801</u>	<u>105,413</u>	<u>--</u>	<u>32,788</u>	<u>8,643</u>	<u>358,645</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 228,987</u>	<u>\$ 108,187</u>	<u>\$ --</u>	<u>\$ 32,788</u>	<u>\$ 8,643</u>	<u>\$ 378,605</u>

Marcellus Community Schools
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2023

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Capital Projects</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service Fund</u>	<u>Student Activities</u>	<u>2007 Refunding Debt Fund</u>	<u>Sinking Fund</u>	<u>2014 Capital Projects Fund</u>	
Revenues						
Local Sources	\$ 15,778	\$ --	\$ --	\$ 37	\$ --	\$ 15,815
State Sources	21,588	--	--	--	--	21,588
Federal Sources	579,837	--	--	--	--	579,837
Total Revenues	<u>617,203</u>	<u>--</u>	<u>--</u>	<u>37</u>	<u>--</u>	<u>617,240</u>
Expenditures						
Supporting Services	--	--	--	1,288	--	1,288
Food Services	708,222	--	--	--	--	708,222
Capital Outlay	--	--	--	32,530	--	32,530
Total Expenditures	<u>708,222</u>	<u>--</u>	<u>--</u>	<u>33,818</u>	<u>--</u>	<u>742,040</u>
Excess of Revenues Over (Under) Expenditures	<u>(91,019)</u>	<u>--</u>	<u>--</u>	<u>(33,781)</u>	<u>--</u>	<u>(124,800)</u>
Net Change in Fund Balance	(91,019)	--	--	(33,781)	--	(124,800)
<i>Fund Balance at Beginning of Period</i>	302,820	105,413	--	66,569	8,643	483,445
Fund Balance at End of Period	<u>\$ 211,801</u>	<u>\$ 105,413</u>	<u>\$ --</u>	<u>\$ 32,788</u>	<u>\$ 8,643</u>	<u>\$ 358,645</u>



**MARCELLUS COMMUNITY SCHOOLS
SINGLE AUDIT COMPLIANCE
YEAR ENDED JUNE 30, 2023**

Marcellus Community Schools
Schedule of Expenditures of Federal Awards
June 30, 2023

<i>Federal Grantor / Pass-through Grantor / Program / Project Number</i>	<i>Assistance Listing Number</i>	<i>Program or Award Amount</i>	<i>Prior Year Expenditures (Memorandum Only)</i>	<i>Accrued (Unearned) Revenue at July 1, 2022</i>	<i>Current Year Receipts</i>	<i>Current Year Expenditures</i>	<i>Adjustments</i>	<i>Accrued Revenue at June 30, 2023</i>
U.S. Department of Agriculture:								
<i>Passed Through Michigan Department of Education:</i>								
Child Nutrition Cluster:								
Entitlement Commodities 2023	10.555	\$ 37,785	\$ -	\$ -	\$ 37,785	\$ 37,785	\$ -	\$ -
Bonus Commodities 2023	10.555	6,159	-	-	6,159	6,159	-	-
Supply Chain Assistance 220910	10.555	16,658	-	-	16,658	16,658	-	-
Supply Chain Assistance 230910	10.555	10,448	-	-	10,448	10,448	-	-
National School Lunch Program - 221960	10.555	49,259	-	-	49,259	49,259	-	-
National School Lunch Program - 231960	10.555	298,347	-	-	277,542	277,542	-	-
National School Breakfast Program - 221970	10.553	20,519	-	-	20,519	20,519	-	-
National School Breakfast Program - 231970	10.553	144,539	-	-	138,643	138,643	-	-
Summer Food Service Program - 220900	10.559	8,861	-	-	8,861	8,861	-	-
Total Child Nutrition Cluster:		592,575	-	-	565,874	565,874	-	-
Child and Adult Care Food Program 221920	10.558	22,704	21,483	396	1,617	1,221	-	-
Child and Adult Care Food Program 231920	10.558	13,444	-	-	13,444	11,329	-	(2,115)
Child and Adult Care Food Program 222010	10.558	1,290	1,199	22	113	91	-	-
Child and Adult Care Food Program 232010	10.558	1,001	-	-	1,001	843	-	(158)
Local Food for Schools 230985	10.185	4,049	-	-	479	479	-	-
COVID-19 Pandemic EBT Local Level Costs 220980	10.649	628	-	-	628	628	-	-
Total U.S. Department of Agriculture		635,691	22,682	418	583,156	580,465	-	(2,273)
U.S. Department of Education:								
<i>Passed Through Michigan Department of Education:</i>								
Title I, Part A - Improving Basic Programs								
221530 2122 Title I Grant	84.010	131,404	118,910	12,494	12,494	-	-	-
231530 2223 Title I Grant	84.010	146,292	-	-	132,903	146,292	-	13,389
Total Title I		277,696	118,910	12,494	145,397	146,292	-	13,389
Title II, Part A - Improving Teacher Quality State Grants								
210520 2021 Title II Grant	84.367	26,240	-	-	(558)	(558)	-	-
220520 2122 Title II Grant	84.367	26,542	23,491	3,051	3,051	-	-	-
230520 2223 Title II Grant	84.367	25,914	-	-	24,167	25,914	-	1,747
Total Title II		78,696	23,491	3,051	26,660	25,356	-	1,747
Title III								
230570 2223 Title III Grant	84.424	515	-	-	-	515	-	515
Total Title III		\$ 515	\$ -	\$ -	\$ -	\$ 515	\$ -	\$ 515

See Notes to the Schedule of Expenditures of Federal Awards

Marcellus Community Schools
Schedule of Expenditures of Federal Awards
June 30, 2023

<i>Federal Grantor / Pass-through Grantor / Program / Project Number</i>	<i>Assistance Listing Number</i>	<i>Program or Award Amount</i>	<i>Prior Year Expenditures (Memorandum Only)</i>	<i>Accrued (Unearned) Revenue at July 1, 2022</i>	<i>Current Year Receipts</i>	<i>Current Year Expenditures</i>	<i>Adjustments</i>	<i>Accrued Revenue at June 30, 2023</i>
U.S. Department of Education (Continued):								
Title IV, Part A - Student Support & Academic Enrichment								
210750 2021 Title IV Grant	84.424	\$ 10,000	\$ 10,000	\$ (2,740)	\$ (1,910)	\$ (1,910)	\$ 2,740	\$ -
230750 2223 Title IV Grant	84.424	11,909	-	-	9,454	11,909	-	2,455
Total Title IV		21,909	10,000	(2,740)	7,544	9,999	2,740	2,455
ESSER Funds								
COVID-19 ESSER III Formula Funds - 213713	84.425U	1,028,433	451,508	-	308,039	413,306	-	105,267
Total ESSER		1,028,433	451,508	-	308,039	413,306	-	105,267
Total Passed Through Michigan Department of Education		2,042,940	626,591	13,223	1,070,796	1,175,933	2,740	121,100
<i>Passed Through LewisCass Intermediate School District:</i>								
2022-23 McKinney - Vinto Homeless	84.196	5,690	-	-	5,690	5,690	-	-
Total U.S. Department of Education		1,412,939	603,909	12,805	493,330	601,158	2,740	123,373
U.S. Department of Health and Human Services:								
<i>Passed Through LewisCass Intermediate School District:</i>								
22-23 Medicaid Outreach (Medicaid Cluster)	93.778	3,861	-	-	3,861	3,861	-	-
22-23 HRA Funding	93.323	20,160	-	-	20,160	20,160	-	-
Total U.S. Department of Health and Human Services		24,021	-	-	24,021	24,021	-	-
Total Federal Financial Assistance		\$ 2,072,651	\$ 626,591	\$ 13,223	\$ 1,100,507	\$ 1,205,644	\$ 2,740	\$ 121,100

See Notes to the Schedule of Expenditures of Federal Awards

Marcellus Community Schools

Notes to the Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Marcellus Community Schools (the "School District") under programs of the federal government for the year ended June 30, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the School District.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the School District's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where applicable and have been identified in the Schedule.

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

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

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

The School District has elected not to use the 10-percent de minimus indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

Note 3 - Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The grantee received no noncash assistance during the year ended June 30, 2023 that is not included on the schedule of expenditures of federal awards.

Marcellus Community Schools

Notes to the Schedule of Expenditures of Federal Awards

Note 4 - Reconciliation to the Schedule of Expenditures of Federal Awards

Federal sources revenue reported in the fund financial statements of \$1,205,644 reconcile with the federal expenditures reported in the Schedule.

INDEPENDENT AUDITOR'S 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*

To the Board of Education
Marcellus Community Schools
Marcellus, 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 Marcellus Community Schools' (the "School District"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated November 1, 2023.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions

of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in black ink and is positioned above the typed name of the firm.

Gabridge & Company, PLC
Grand Rapids, MI
November 1, 2023

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE

To the Board of Education
Marcellus Community Schools
Marcellus, Michigan

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Marcellus Community Schools' (the "School District") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2023. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the School District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the School District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the

requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the School District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the School District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the School District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the School District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the School District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of

compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.



Gabridge & Company, PLC
Grand Rapids, MI
November 1, 2023

**Marcellus Community Schools
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	Unmodified
Internal controls over financial reporting	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No (none reported)
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No

Identification of Major Programs

Name of Federal Program or Cluster	Assistance Listing Number
Education Stabilization Fund	84.425
Dollar threshold used to distinguish between Type A and B programs?	\$750,000
Auditee qualified as a low-risk auditee?	Yes

SECTION II - FINANCIAL STATEMENT FINDINGS
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No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
--

No findings or questioned costs.

SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS

No prior audit findings were reported.

November 1, 2023

To the Board of Education
Marcellus Community Schools
Marcellus, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marcellus Community Schools (the “School District”) for the year ended June 30, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the OMB Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 24, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

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 to the financial statements. There were no new accounting policies adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2023. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements 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:

- Estimates have been used to calculate the net pension liability and the net other postemployment benefit liability.
- Management’s estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management’s estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

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

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 us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 1, 2023.

Management Consultations with Other Independent 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.

As required by the OMB Uniform Guidance, we have also completed an audit of the federal programs administered by the School District. The results of that audit are provided to the Board of Education in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with the OMB Uniform Guidance dated November 1, 2023.

Other Matters

We applied certain limited procedures to management's discussion and analysis, the pension and OPEB schedules, and the budgetary comparison schedule, which are required supplementary information (RSI) 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.

We were engaged to report on the individual and combining fund statements, and the schedule of expenditures of federal awards, which accompany the financial statements but is not RSI. With respect to this supplementary information, 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.

Restriction on Use

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

Very truly yours,

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the printed name of the company.

Gabridge & Company, PLC
Grand Rapids, MI