



LAWTON COMMUNITY SCHOOLS
Kalamazoo and Van Buren Counties, Michigan

Annual Financial Report

For the year ended June 30, 2023

LAWTON COMMUNITY SCHOOLS

Table of Contents

For the year ended June 30, 2023

Financial Section

Independent Auditor's Report..... 1

Management's Discussion and Analysis 5

Basic Financial Statements 15

District-wide Financial Statements:

 Statement of Net Position..... 16

 Statement of Activities 17

Fund Financial Statements:

 Governmental Funds:

 Balance Sheet 18

 Reconciliation of Total Governmental Fund Balances to Net Position of
 Governmental Activities..... 20

 Statement of Revenues, Expenditures and Changes in Fund Balances 22

 Reconciliation of the Statement of Revenues, Expenditures and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities 24

 Statement of Revenues, Expenditures and Changes in Fund Balances –
 Budget and Actual – General Fund 25

 Notes to Basic Financial Statements 26

Required Supplementary Information

 Schedule of the District's Proportionate Share of the
 Net Pension Liability 56

 Net OPEB Liability 58

 Schedule of District Contributions

 Pension Contributions 60

 OPEB Contributions..... 62

 Notes to Required Supplementary Information 64

LAWTON COMMUNITY SCHOOLS
Table of Contents (Continued)

For the year ended June 30, 2023

Supplementary Information

Combining and Individual Fund Statements and Schedules:

| | |
|--|----|
| Nonmajor Governmental Funds..... | 67 |
| Combining Balance Sheet..... | 68 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances..... | 70 |
| Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual: | |
| Food Service Special Revenue Fund..... | 72 |
| Student/School Activity Special Revenue Fund..... | 73 |

Federal Financial Assistance Programs Supplemental Information Issued Under Separate Cover

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

October 24, 2023

The Board of Education
Lawton Community Schools

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 Lawton Community Schools as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Lawton Community Schools' 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 Lawton Community Schools, as of June 30, 2023, and the respective changes in financial position, and the respective budgetary comparison for the General Fund, 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 Lawton Community Schools 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 Lawton Community Schools' 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 auditing standards generally accepted in the United States of America 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 auditing standards generally accepted in the United States of America 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 Lawton Community Schools' 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 Lawton Community Schools' 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 and other required supplementary information 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 Lawton Community Schools' basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedules 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 schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note K to the financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements* and No. 101 *Compensated Absences* for the fiscal year June 30, 2023. Our opinion is not modified in respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2023, on our consideration of Lawton Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lawton Community Schools' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lawton Community Schools' internal control over financial reporting and compliance.



Certified Public Accountants
Grand Rapids, Michigan

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MANAGEMENT'S DISCUSSION AND ANALYSIS



LAWTON COMMUNITY SCHOOLS
Management's Discussion and Analysis
June 30, 2023

As management of Lawton Community Schools (“the District”), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2023. We encourage readers to consider the information presented here in conjunction with the District’s financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of four parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include two kinds of statements that present different views of the 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 District’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the 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.

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data; Required Supplementary Information includes pension and OPEB information schedules; Other Supplementary Information follows and includes combining and individual fund statements and schedules.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District’s assets, deferred outflows of resources, liabilities and deferred inflows of resources. 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 District’s net position, and how it has changed. Net position - the difference between the District’s assets and deferred outflows of resources, and liabilities and deferred inflows of resources - is one way to measure the District’s financial health or position.

- Over time, increases or decreases in the District’s net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District’s overall health, one should consider additional non-financial factors such as changes in the District’s property tax-base, economic factors that might influence state aid revenue, and the condition of school buildings and other facilities.



LAWTON COMMUNITY SCHOOLS
Management's Discussion and Analysis
June 30, 2023

In the district-wide financial statements, the District's activities are presented as follows:

- Governmental activities: The District's basic services are included here, 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.

New Accounting Pronouncements Implemented

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. This Statement enhances the relevance and consistency of information about governments' subscription-based information technology arrangements. In addition, the District implemented GASB Statement No. 101 *Compensated Absences* during the fiscal year ended June 30, 2023. This Statement will provide more consistent application for recognizing liability related to compensated absences, which is expected to potentially eliminate comparability issues between governments that offer different types of leave and enhance the relevance and reliability of information for compensated absences. See Note K for additional information.

Condensed District-wide Financial Information

The Statement of Net Position provides financial information on the District as a whole.

| | <u>2023</u> | <u>2022</u> |
|---------------------------------------|------------------------------|-------------------------------|
| Assets | | |
| Current assets | \$ 8,164,780 | \$ 7,523,435 |
| Net capital assets | 22,271,033 | 22,841,103 |
| Total Assets | <u>30,435,813</u> | <u>30,364,538</u> |
| Deferred Outflows of Resources | <u>8,268,096</u> | <u>3,273,881</u> |
| Liabilities | | |
| Current liabilities | 3,534,390 | 3,338,679 |
| Long-term liabilities | 18,581,426 | 20,978,094 |
| Net pension liability | 22,007,118 | 13,524,414 |
| Net OPEB liability | 1,225,802 | 875,302 |
| Total Liabilities | <u>45,348,736</u> | <u>38,716,489</u> |
| Deferred Inflows of Resources | <u>2,684,810</u> | <u>7,972,175</u> |
| Net Position | | |
| Net investment in capital assets | 1,995,081 | 293,251 |
| Restricted | 1,699,218 | 2,059,698 |
| Unrestricted (deficit) | (13,023,936) | (15,403,194) |
| Total Net Position | <u>\$ (9,329,637)</u> | <u>\$ (13,050,245)</u> |



LAWTON COMMUNITY SCHOOLS
Management's Discussion and Analysis
June 30, 2023

The Statement of Activities presents changes in net position from operating results:

| | 2023 | 2022 |
|--|-----------------------|------------------------|
| Program Revenues | | |
| Charges for services | \$ 227,444 | \$ 173,649 |
| Operating grants | 4,780,585 | 3,412,444 |
| General Revenues | | |
| Property taxes | 3,544,815 | 3,573,289 |
| State school aid, unrestricted | 8,482,842 | 8,649,709 |
| Interest and investment earnings | 126,696 | - |
| Other | 312,800 | 295,352 |
| Total Revenues | 17,475,182 | 16,104,443 |
| Expenses | | |
| Instruction | 7,287,737 | 5,964,034 |
| Supporting services | 4,115,859 | 4,034,494 |
| Food service | 760,589 | 856,434 |
| Community services | 289 | - |
| Other | - | 230,310 |
| Interest on long-term debt | 533,426 | 555,933 |
| Depreciation – unallocated | 1,056,674 | 1,013,172 |
| Total Expenses | 13,754,574 | 12,654,377 |
| Increase (Decrease) in Net Position | 3,720,608 | 3,450,066 |
| Net Position, Beginning of Year | (13,050,245) | (16,500,311) |
| Net Position, End of Year | \$ (9,329,637) | \$ (13,050,245) |

Financial Analysis of the District as a Whole

Total revenues exceeded expenses by \$3,720,608 on the Statement of Activities, increasing total net position from a deficit of \$13,050,245 at June 30, 2022 to a deficit of \$9,329,637 at June 30, 2023. Unrestricted net assets increased by \$2,379,258 to a deficit of \$13,023,936 at June 30, 2023. The District's net pension liability, including deferred outflows and inflows of resources, decreased by \$129,033 during the fiscal year. In addition, the District's net OPEB liability, including deferred outflows and inflows of resources, decreased by \$1,319,343 during the fiscal year.

The District's financial position is the product of many factors.

The District's total revenues were \$17.5 million. Property taxes and unrestricted State aid accounted for most of the District's revenues, contributing 69 percent of the total. The remainder came from State and federal aid for specific programs (27%), fees charged for services, interest earnings and other local sources.



LAWTON COMMUNITY SCHOOLS
Management's Discussion and Analysis
June 30, 2023

The total cost of all programs was \$13.8 million. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (67 percent). The District's operation and maintenance services accounted for 12 percent of total costs.

The current position of the District's finances can be credited to careful monitoring of economic changes and appropriate cost-cutting measures to maintain programs during these challenging economic times. Despite the ongoing uncertainty of funding revenue from the State of Michigan, the District has endeavored to maintain a positive fund balance.

- The District has conducted a thorough budget analysis and has broken the budget down into specific components and their related expenses. This has allowed the District to prioritize expenses, and also to identify where cuts could occur if necessary.
- Regular updates were provided to the Board of Education during the school year. This information is also presented to the community via the District's website transparency reporting.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. As a general rule, fund balances from one fund are prohibited from being expended on expenditures of another fund.

The District utilizes one kind of fund:

- *Governmental funds*: Most of the 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 the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.



LAWTON COMMUNITY SCHOOLS
Management's Discussion and Analysis
June 30, 2023

Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Lawton Community Schools' funds are described as follows:

Major Funds

General Fund

The General Fund is the District's primary operating fund. The General Fund had total revenues of \$13,825,927, total other financing sources of \$55,000, total expenditures of \$12,963,890, and other financing uses of \$174,333. The General Fund ended the fiscal year with a \$742,704 increase in fund balance for a total fund balance of \$4,790,520, up from \$4,047,816 at June 30, 2022.

Debt Service Funds

The District operates two major Debt Service Funds, the 2017 QZAB and 2019B Debt Service Funds. Total revenues were \$1,796,660, total other financing sources were \$174,333 and total expenditures were \$1,834,582. The Debt Service Funds ended the fiscal year with a \$136,411 increase in fund balance for a total fund balance of \$998,515, up from \$862,104 at June 30, 2022.

Nonmajor Funds

Special Revenue Funds

The District operates two Special Revenue Funds. The Food Service Fund, which administers the hot lunch program of the District, had total revenues of \$923,547, total other financing sources of \$400, total expenditures of \$963,220 and total other financing uses of \$55,000. The Food Service Fund ended the fiscal year with a \$94,273 decrease in fund balance for a total fund balance of \$422,278, down from \$516,551 at June 30, 2022.

The Student/School Activity Fund segregates and maintains funds to be held for the benefit of the District's students. The Student/School Activity Fund had total revenues of \$251,331 and total expenditures of \$260,988. The Student/School Activity Fund ended the fiscal year with a \$9,657 decrease in fund balance for a total fund balance of \$158,969, down from \$168,626 at June 30, 2022.

Debt Service Funds

The District operates two non-major Debt Service Funds. Total revenues were \$657,600 and total expenditures were \$687,600. The Debt Service Funds ended the fiscal year with a \$30,000 decrease in fund balance for a total fund balance of \$201,519, down from \$231,519 at June 30, 2022.

Capital Projects Funds

The 2019 Construction Capital Projects Fund accounts for bond proceeds to be used for voter approved capital improvement projects. During the fiscal year, the fund had total revenues of \$8,989 and total expenditures of \$104,769. The 2019 Construction Capital Projects Fund ended the fiscal year with a \$95,780 decrease in fund balance for a total fund balance of \$185,118, down from \$280,898 at June 30, 2022.



LAWTON COMMUNITY SCHOOLS
Management's Discussion and Analysis
June 30, 2023

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget one time after the June 2022 adoption. The May 2023 amendment was needed due to:

- Adjust for student enrollment; staff changes; program adjustments; additional federal, state, and local grant awards; and anticipated revenue/expenditure changes. The State budget was not finalized in time for our June 2022 adoption, so revenue was unknown. Most of the revenue increases in state categoricals and federal grants were directly offset by an increase in expenditures. The District was able to provide additional mental health services and improve school safety with new funding.
- Last fall, the District entered into a shared time partnership, a virtual learning program, that increased enrollment by an FTE of 26 students. Overall, student enrollment was up by over 64 FTE from the prior school year largely due the shared time partnership and the addition of adding a transitional kindergarten class.
- The District's final budget for the General Fund anticipated that revenues would exceed expenditures and other financing uses by \$537,285 while the initial budget projected a deficit of \$298,260. The difference was largely due to increased enrollment, additional State revenue and underspending in certain budget areas.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2023, the District had a \$41,977,065 investment in a broad range of capital assets, including school buildings, athletic facilities, vehicles, computer equipment and software, and administrative offices. (More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.)

At June 30, 2023, the District's investment in capital assets (net of accumulated depreciation and amortization), was \$22,271,033. Capital asset additions had a net increase totaling \$486,604, for the fiscal year with accumulated depreciation and amortization increasing \$1,056,674, resulting in a net decrease in the book value of capital assets of \$552,566.

The District's net investment in capital assets, including construction in progress, buildings and improvements, vehicles and furniture and equipment, is detailed as follows:

| | |
|------------------------------|-----------------------------|
| Construction in progress | \$ 139,784 |
| Buildings and improvements | 21,014,376 |
| Furniture and equipment | 665,583 |
| Vehicles | 438,020 |
| Right of use assets – leases | <u>13,270</u> |
| Net Capital Assets | <u>\$ 22,271,033</u> |



LAWTON COMMUNITY SCHOOLS
Management's Discussion and Analysis
June 30, 2023

Long-term Obligations

At year end, the District had \$20.6 million in general obligation bonds and other long-term obligations— a net decrease of \$2.17 million from June 30, 2022.

The District's bond rating for general obligation debt was affirmed by Standard and Poor's as AA, with a stable outlook. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within a District's boundaries.

The District's other obligations include bond premium, lease liabilities and accumulated sick leave. We present more detailed information about our long-term liabilities in Note F in the Notes to Basic Financial Statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

- State funding for the 2023-24 school year will increase from \$9,150 per pupil to \$9,608 per pupil. The foundation allowance has been increasing since the pandemic; but as COVID funding is winding down, future funding is uncertain.
- After years of declining/stagnant enrollment, student count has been increasing since 2021. Fall 2023 count was projected to be 1,076 students, but current estimates show that enrollment will be around 1,080. Maximizing student count continues to be a goal the District needs to achieve in order to maximize revenue. School of Choice is a large factor influencing student enrollment. Online learning remains a way to get education and public schools are being forced to compete in that business or lose students. This educational option has assisted the District in keeping its high priority of being proactive in retaining students, as well as attracting new students in order to maximize State School Aid revenues.
- On the expenditure side, there are always challenges with ever-increasing costs. Since the pandemic, the District is realizing a substantial increase in overall operating costs. The District has received Federal and State funding to help offset the additional costs incurred during the pandemic. However, these funds are running out and the District is still committed to continuing to support the extra needs to address learning loss and mental health of the students. The increase in the per pupil foundation allowance is helping support the overall increased costs due to inflation post-pandemic needs. However, future funding remains uncertain post COVID.
- Both the Lawton Education Association (LEA) and Lawton Education Support Personnel Association (LESPA) contracts expire at the end of the 2024 fiscal year and negotiations will start next spring.
- Employee retirement costs paid into the Michigan Public Schools Employee Retirement System (MPERS), controlled by the State, continues to be a cause for concern into the future. Prior year legislative groups have begun to address this unfunded liability, the fact remains there are less people paying into this system and more people receiving benefits each year, as state-wide decline in students have dictated retirees are not replaced locally on a one-to-one basis. For every dollar paid to employees throughout the year, the District pays a percentage into MPERS. Addressing the unfunded MPERS liability is necessary; however, it does reduce the overall available funds to all districts, as this funding dedicates a portion of school aid directly to this item.



LAWTON COMMUNITY SCHOOLS
Management's Discussion and Analysis
June 30, 2023

- Employment recruitment and retention is a concern. Maintaining quality support staff and substitutes at all positions is becoming difficult due to the economic growth within the State. Current wages and benefits can not match the offerings of private sector employers during economic growth and the pool of available, quality, workers is diminished. The District is having to increase its total employment wage/benefit package to recruit and retain staff. If the economy turns, the increased wage/benefit packages may put pressure on future District's budgets, absent State funding growth.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office of Lawton Community Schools, 101 Primary Way, Lawton, Michigan 49065.

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BASIC FINANCIAL STATEMENTS

LAWTON COMMUNITY SCHOOLS
Statement of Net Position
June 30, 2023

| | Governmental Activities |
|--|----------------------------|
| Assets | |
| Cash | \$ 50 |
| Cash equivalents and investments (Note B) | 5,824,533 |
| Accounts receivable | 898 |
| Due from other governmental units (Note C) | 2,314,428 |
| Inventory | 18,838 |
| Prepaid expenses | 6,033 |
| Capital assets not being depreciated (Note E) | 139,784 |
| Capital assets being depreciated/amortized, net (Note E) | 22,131,249 |
| Total Assets | 30,435,813 |
| Deferred Outflows of Resources | |
| Deferred pension amounts | 6,551,749 |
| Deferred OPEB amounts | 1,716,347 |
| Total Deferred Outflows of Resources | 8,268,096 |
| Liabilities | |
| Accounts payable | 60,592 |
| Due to other governmental units | 497,901 |
| Accrued expenses | 146,777 |
| Accrued interest payable | 82,063 |
| Salaries payable | 610,595 |
| Unearned revenue | 91,996 |
| Long-term liabilities (Note F): | |
| Due within one year | 2,044,466 |
| Due in more than one year | 18,581,426 |
| Net pension liability | 22,007,118 |
| Net OPEB liability | 1,225,802 |
| Total Liabilities | 45,348,736 |
| Deferred Inflows of Resources | |
| Deferred pension amounts | 139,854 |
| Deferred OPEB amounts | 2,544,956 |
| Total Deferred Inflows of Resources | 2,684,810 |
| Net Position | |
| Net investment in capital assets | 1,995,081 |
| Restricted for: | |
| Debt service | 1,117,971 |
| Food service | 422,278 |
| Student/school activity | 158,969 |
| Unrestricted (deficit) | (13,023,936) |
| Total Net Position | \$ (9,329,637) |

See accompanying notes to basic financial statements.

LAWTON COMMUNITY SCHOOLS
Statement of Activities
For the year ended June 30, 2023

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes In Net Position |
|--|----------------------|-------------------------|---------------------|--|
| | | Charges for Services | Operating Grants | |
| Governmental Activities | | | | |
| Instruction | \$ 7,287,737 | \$ 1,345 | \$ 3,507,083 | \$ (3,779,309) |
| Supporting services | 4,115,859 | 58,113 | 446,112 | (3,611,634) |
| Food service | 760,589 | 167,986 | 741,544 | 148,941 |
| Community services | 289 | - | - | (289) |
| Interest on long-term debt | 533,426 | - | 85,846 | (447,580) |
| Depreciation/amortization - unallocated* | 1,056,674 | - | - | (1,056,674) |
| Total Governmental Activities | \$ 13,754,574 | \$ 227,444 | \$ 4,780,585 | (8,746,545) |
| General Revenues | | | | |
| Taxes: | | | | |
| | | | | 1,190,085 |
| | | | | 2,354,730 |
| | | | | 8,482,842 |
| | | | | 126,696 |
| | | | | 312,800 |
| | | | | <u>12,467,153</u> |
| | | | | 3,720,608 |
| | | | | <u>(13,050,245)</u> |
| | | | | <u>\$ (9,329,637)</u> |

*This amount excludes direct depreciation/amortization expenses of the various programs.

See accompanying notes to basic financial statements.

LAWTON COMMUNITY SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2023

| Assets | <u>General</u> | <u>2017 QZAB</u> | <u>2019B Debt</u> |
|--|---------------------|----------------------|-----------------------|
| Cash | \$ 50 | \$ - | \$ - |
| Cash equivalents and investments (Note B) | 3,865,688 | 871,665 | 126,850 |
| Accounts receivable | 43 | - | - |
| Due from other funds | - | - | - |
| Due from other governmental units (Note C) | 2,309,422 | - | - |
| Inventory | - | - | - |
| Prepaid expenditures | 2,961 | - | - |
| Total Assets | <u>\$ 6,178,164</u> | <u>\$ 871,665</u> | <u>\$ 126,850</u> |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| Accounts payable | \$ 52,849 | \$ - | \$ - |
| Due to other funds | 289 | - | - |
| Due to other governmental units | 497,901 | - | - |
| Accrued expenditures | 146,730 | - | - |
| Salaries payable | 609,845 | - | - |
| Unearned revenue | 80,030 | - | - |
| Total Liabilities | <u>1,387,644</u> | <u>-</u> | <u>-</u> |
| Fund Balances (Note A) | | | |
| Nonspendable | 2,961 | - | - |
| Committed | 487,000 | - | - |
| Restricted | - | 871,665 | 126,850 |
| Unassigned | 4,300,559 | - | - |
| Total Fund Balances | <u>4,790,520</u> | <u>871,665</u> | <u>126,850</u> |
| Total Liabilities and Fund Balances | <u>\$ 6,178,164</u> | <u>\$ 871,665</u> | <u>\$ 126,850</u> |

See accompanying notes to basic financial statements.

| Nonmajor | Total |
|------------|--------------|
| \$ - | \$ 50 |
| 960,330 | 5,824,533 |
| 855 | 898 |
| 1,233 | 1,233 |
| 5,006 | 2,314,428 |
| 18,838 | 18,838 |
| 3,072 | 6,033 |
| \$ 989,334 | \$ 8,166,013 |

| | |
|----------|-----------|
| \$ 7,743 | \$ 60,592 |
| 944 | 1,233 |
| - | 497,901 |
| 47 | 146,777 |
| 750 | 610,595 |
| 11,966 | 91,996 |
| 21,450 | 1,409,094 |

| | |
|------------|--------------|
| 21,910 | 24,871 |
| 50,000 | 537,000 |
| 895,974 | 1,894,489 |
| - | 4,300,559 |
| 967,884 | 6,756,919 |
| \$ 989,334 | \$ 8,166,013 |

LAWTON COMMUNITY SCHOOLS
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2023

| | | |
|--|--------------------|-------------------------------------|
| Total governmental fund balances | | \$ 6,756,919 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$41,977,065 and accumulated depreciation/amortization is \$19,706,032. | | 22,271,033 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of: | | |
| General obligation bonds | \$(20,295,000) | |
| Bond premium | (152,800) | |
| Lease liabilities | (13,270) | |
| Accumulated sick and vacation pay | <u>(164,822)</u> | (20,625,892) |
| Accrued interest on long-term debt is not included as a liability in governmental funds. | | (82,063) |
| Net pension liability and related deferred outflows/inflows of resources are not included as assets/liabilities in governmental funds: | | |
| Net pension liability | (22,007,118) | |
| Deferred outflows | 6,551,749 | |
| Deferred inflows | <u>(139,854)</u> | (15,595,223) |
| Net OPEB liability and related deferred outflows/inflows of resources are not included as assets/liabilities in governmental funds: | | |
| Net OPEB liability | (1,225,802) | |
| Deferred outflows | 1,716,347 | |
| Deferred inflows | <u>(2,544,956)</u> | <u>(2,054,411)</u> |
| Total net position - governmental activities | | <u><u>\$ (9,329,637)</u></u> |

See accompanying notes to basic financial statements.

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LAWTON COMMUNITY SCHOOLS
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2023

| | General | 2017 QZAB | 2019B Debt |
|--|---------------------|-------------------|-------------------|
| Revenues | | | |
| Local sources | \$ 1,389,890 | \$ - | \$ 1,733,795 |
| State sources | 11,654,231 | - | 62,865 |
| Federal sources | 616,601 | - | - |
| Interdistrict sources | 165,205 | - | - |
| Total Revenues | <u>13,825,927</u> | <u>-</u> | <u>1,796,660</u> |
| Expenditures | | | |
| Current: | | | |
| Instruction | 8,356,567 | - | - |
| Supporting services | 4,601,799 | - | - |
| Food service | - | - | - |
| Community services | 289 | - | - |
| Capital outlay | - | - | - |
| Debt service: | | | |
| Principal repayment | 4,234 | - | 1,671,755 |
| Interest and fiscal charges | 1,001 | - | 162,827 |
| Total Expenditures | <u>12,963,890</u> | <u>-</u> | <u>1,834,582</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>862,037</u> | <u>-</u> | <u>(37,922)</u> |
| Other Financing Sources (Uses) | | | |
| Transfers in | 55,000 | 174,333 | - |
| Transfers out | (174,333) | - | - |
| Other transactions | - | - | - |
| Total Other Financing Sources (Uses) | <u>(119,333)</u> | <u>174,333</u> | <u>-</u> |
| Net Change in Fund Balances | 742,704 | 174,333 | (37,922) |
| Fund Balances, Beginning of Year | <u>4,047,816</u> | <u>697,332</u> | <u>164,772</u> |
| Fund Balances, End of Year | <u>\$ 4,790,520</u> | <u>\$ 871,665</u> | <u>\$ 126,850</u> |

See accompanying notes to basic financial statements.

| Nonmajor | Total |
|--------------|--------------|
| \$ 1,076,942 | \$ 4,200,627 |
| 55,131 | 11,772,227 |
| 709,394 | 1,325,995 |
| - | 165,205 |
| 1,841,467 | 17,464,054 |
| - | 8,356,567 |
| 260,988 | 4,862,787 |
| 963,220 | 963,220 |
| - | 289 |
| 104,769 | 104,769 |
| 312,270 | 1,988,259 |
| 375,330 | 539,158 |
| 2,016,577 | 16,815,049 |
| (175,110) | 649,005 |
| - | 229,333 |
| (55,000) | (229,333) |
| 400 | 400 |
| (54,600) | 400 |
| (229,710) | 649,405 |
| 1,197,594 | 6,107,514 |
| \$ 967,884 | \$ 6,756,919 |

LAWTON COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2023

Net change in fund balances - total governmental funds \$ 649,405

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation/amortization in the current period:

| | | |
|---------------------------|--------------------|-----------|
| Capital outlays | \$ 486,604 | |
| Depreciation/amortization | <u>(1,056,674)</u> | (570,070) |

Bond premium is amortized over the life of the new bond issue on the Statement of Activities. 10,728

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not effect the Statement of Activities:

| | | |
|--------------------------|----------------|-----------|
| General obligation bonds | 1,820,000 | |
| Lease liabilities | 4,234 | |
| School bond loan fund | <u>164,025</u> | 1,988,259 |

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is paid. 5,732

In the Statement of Net Position, accumulated sick and vacation pay is measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits used/paid exceeded the amounts earned. 188,178

The changes in net pension liability and related deferred outflows/inflows of resources are not included as revenues/expenditures in governmental funds. 129,033

The changes in net OPEB liability and related deferred outflows/inflows of resources are not included as revenues/expenditures in governmental funds. 1,319,343

Total changes in net position - governmental activities \$ 3,720,608

LAWTON COMMUNITY SCHOOLS
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2023

| | Budgeted Amounts | | Actual | Variance With Final Budget |
|--|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Local sources | \$ 1,359,333 | \$ 1,425,554 | \$ 1,389,890 | \$ (35,664) |
| State sources | 9,565,585 | 11,598,410 | 11,654,231 | 55,821 |
| Federal sources | 534,270 | 632,007 | 616,601 | (15,406) |
| Interdistrict sources | 421,696 | 164,351 | 165,205 | 854 |
| Total Revenues | 11,880,884 | 13,820,322 | 13,825,927 | 5,605 |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Basic programs | 6,479,333 | 7,350,910 | 7,309,906 | 41,004 |
| Added needs | 1,253,317 | 1,091,911 | 1,046,661 | 45,250 |
| Supporting services: | | | | |
| Pupil services | 380,035 | 408,980 | 403,353 | 5,627 |
| Instructional staff services | 78,102 | 82,485 | 82,516 | (31) |
| General administrative services | 378,006 | 394,251 | 392,666 | 1,585 |
| School administrative services | 777,543 | 832,306 | 823,070 | 9,236 |
| Business services | 303,508 | 351,509 | 347,715 | 3,794 |
| Operation and maintenance services | 1,399,063 | 1,675,935 | 1,606,973 | 68,962 |
| Pupil transportation services | 310,615 | 288,799 | 276,692 | 12,107 |
| Central services | 404,638 | 426,434 | 411,697 | 14,737 |
| Other supporting services | 253,526 | 256,731 | 257,117 | (386) |
| Community services | 13,125 | 3,453 | 289 | 3,164 |
| Debt Service: | | | | |
| Principal repayment | - | - | 4,234 | (4,234) |
| Interest and fiscal charges | - | - | 1,001 | (1,001) |
| Total Expenditures | 12,030,811 | 13,163,704 | 12,963,890 | 199,814 |
| Excess (Deficiency) of Revenues Over Expenditures | (149,927) | 656,618 | 862,037 | 205,419 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 26,000 | 55,000 | 55,000 | - |
| Transfers out | (174,333) | (174,333) | (174,333) | - |
| Total Other Financing Sources (Uses) | (148,333) | (119,333) | (119,333) | - |
| Net Change in Fund Balances | (298,260) | 537,285 | 742,704 | 205,419 |
| Fund Balances, Beginning of Year | 4,047,816 | 4,047,816 | 4,047,816 | - |
| Fund Balances, End of Year | \$ 3,749,556 | \$ 4,585,101 | \$ 4,790,520 | \$ 205,419 |

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

Note A – Summary of Significant Accounting Policies

Lawton Community Schools (the “District”) was organized under the School Code of the State of Michigan, and services a population of approximately 1,071 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Lawton Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District’s significant accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. District-wide and Fund Financial Statements

District-wide Financial Statements - The district-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District does not have any *business-type activities*.

The Statement of Net Position is reported on the full accrual, economic resources basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District’s net position is reported in three parts: net investment in capital assets, restricted net position, and unrestricted net position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund, 2017 QZAB and 2019 Debt Service Funds are the District's major funds. Nonmajor funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided separately.

Revenues are recognized when susceptible to accrual; i.e., 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 District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. 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*. 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.

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 State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with State law and accounting principles generally accepted in the United States of America.

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

Major Fund:

The *General Fund* is the general operating fund of the District. 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.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

Nonmajor Funds:

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service and Student/School Activities Special Revenue Funds.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

Capital Projects Funds—Capital Projects Funds are used to record the bond proceeds, investment earnings and the disbursement of the monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The Capital Projects Funds include capital projects activities funded with bonds after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of Section 1351a of the State of Michigan's School code.

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

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. The District has also adopted budgets for its Food Service Special Revenue Fund and its Student/School Activity Special Revenue Fund. A school district's Budget Appropriations Act (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the function level. All appropriations lapse at the end of the fiscal year.

Lawton Community Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent and Business Manager to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

7. Inventory/Prepaid Items

Inventories are valued at cost (first-in, first-out), and are accounted for using the consumption method. Inventories of the Food Service Fund consist of food and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide and fund financial statements. The cost of prepaid items is recorded as expenses/expenditures when consumed rather than when purchased.

8. Capital Assets

Capital assets, which include buildings and improvements, vehicles and furniture and equipment, 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 fair 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.

Land improvements, buildings and improvements, furniture and equipment, vehicles and right of use assets are depreciated or amortized using the straight-line method over the following estimated useful lives:

| | |
|-----------------------------|---------------|
| Buildings and improvements | 40 - 50 years |
| Furniture and equipment | 3 - 10 years |
| Vehicles | 5 - 10 years |
| Right of use asset - leases | 3 - 6 years |

9. 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. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, 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.

10. Accumulated Sick and Vacation Pay

Accumulated sick leave at June 30, 2023 has been computed and recorded in the basic financial statements of the District. Eligible District employees who leave the District are also entitled to reimbursement for a portion of their unused sick and vacation days. At June 30, 2023, the accumulated liabilities, including salary related payments, for accumulated sick and vacation pay amount to \$164,822.

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

11. Retirement Plan

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, were implemented by the District during the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Cost sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans – pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (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. Plan investments are reported at fair value.

12. Postemployment Benefits Other Than Pensions

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented by the District during the fiscal year ended June 30, 2018. This Statement establish standards for recognizing and measuring (OPEB) liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB plans, the Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about OPEB are also addressed. Distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet specific criteria. Cost-sharing employers are those whose employees are provided with defined benefit OPEB through cost-sharing multiple-employer OPEB plans—OPEB plans in which the OPEB obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides OPEB through the OPEB plan.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (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. Plan investments are reported at fair value.

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

13. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has two such items that qualify for reporting in this category: the deferred outflows of resources relating to the recognition of net pension liability on the financial statements and the deferred outflows of resources relating to the recognition of net OPEB liability on the financial statements.

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 future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two types of items that qualify for reporting in this category: the deferred inflows of resources relating to the recognition of net pension liability on the financial statements and the deferred inflows of resources relating to the recognition of net OPEB liability on the financial statements.

14. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities, and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws or regulations from other governments.

15. Fund Balance

The District had adopted Governmental Accounting Standards Board (GASB) Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. The stated objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, detailed as follows:

- Nonspendable – resources that cannot be spent because they are either (a) not in spendable form (inventories and prepaid amounts) or (b) legally or contractually required to be maintained intact (the principal of a permanent fund).
- Restricted – resources that cannot be spent because of (a) constraints externally imposed by creditors (debt covenants), grantors, contributors, or laws or regulations or (b) imposed by law through constitutional provisions or enabling legislation and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.
- Committed – resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority (Board of Education). Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified uses by taking the same type of action it employed to previously commit those amounts. Committed fund balance does not lapse at year end.

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

- Assigned – resources that are constrained by the government’s *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body or official to which the governing body has designated the authority to assign amounts to be used for specific purposes. Assigned fund balance does not lapse at year end.
- Unassigned – unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

As of June 30, 2023, Lawton Community Schools had not established a policy for its use of unrestricted fund balance amounts; it considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used, but reserves the right to selectively spend unassigned resources first to defer the use of other classified funds.

16. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

17. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.
- 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.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

- United States government or Federal agency obligation repurchase agreements.
- Banker’s acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school district in Michigan.
- 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 in Michigan.

Balances at June 30, 2023 related to cash equivalents and investments are detailed in the Basic Financial Statements as follows:

| | |
|----------------------------|---------------------|
| Statement of Net Position: | |
| Governmental activities | <u>\$ 5,824,533</u> |

Cash Equivalents

Depositories actively used by the District during the year are detailed as follows:

1. Huntington Bank

Cash equivalents consist of bank public funds checking and savings accounts.

June 30, 2023 balances are detailed as follows:

| | |
|------------------|----------------------------|
| Cash equivalents | <u><u>\$ 2,029,033</u></u> |
|------------------|----------------------------|

Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that in the event of bank failure, the District’s deposits may not be returned to the District. Protection of District deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District’s cash equivalents was \$2,029,033, and the bank balance was \$2,110,388. Of the bank balance \$1,450,035 was insured and \$660,353 was uninsured and uncollateralized.

Investments

As of June 30, 2023 the District had the following investments:

| | Maturity | Fair Value | Rating |
|--------------------------|----------|--------------|----------|
| Investment Pool Account: | | | |
| Michigan CLASS | N/A | \$ 3,795,500 | S&P AAAm |

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

Custodial Credit Risk Related to Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District will minimize custodial credit risk by limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the District will do business. At June 30, 2023, the District had no investments that were subject to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The District's investment policy does not specifically address credit risk but minimizes its credit risk by limiting investments to the types allowed by the State.

Interest Rate Risk

The District minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Concentration of Credit Risk

The District minimizes concentration of credit risk which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The District's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security.

Foreign Currency Risk

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

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs. Commercial paper is carried at amortized cost (which approximates fair value).

The District had the following recurring fair value measurements as of June 30, 2023:

Investments in Entities that Calculate Net Asset Value per Share. The District holds shares in Michigan CLASS whereby the fair value of the investment is measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient.

At year end, the net asset value of the District's investment in Michigan CLASS was \$3,795,500. The investment pool had no unfunded commitments, specific redemption frequency or redemption notice period required. The Michigan CLASS investment pool invests in U.S. treasury obligations, federal agency obligations of the U.S. government, high-grade commercial paper (rated 'A-1' or better) collateralized bank deposits, repurchase agreements (collateralized at 102% by Treasuries and agencies), and approved money-market funds. The program seeks to provide safety, liquidity, convenience, and competitive rates of return, and is designed to meet the needs of Michigan public sector investors. It purchases securities that are legally permissible under state statutes and are available for investment by Michigan counties, cities, townships, school districts, authorities and other public agencies.

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February 2022 and October 2022. The 2022-23 "Foundation Allowance" for Lawton Community Schools was \$9,150 for 1,065 "Full Time Equivalent" students, generating \$11,486,557 in state aid payments to the District of which \$2,072,247 was paid to the District in July and August 2023 and is included in "Due From Other Governmental Units" of the General Fund and Food Service Fund of the District.

Property taxes for the District are levied December 1 (the tax lien date) by the Townships of Antwerp, Decatur, Paw Paw, Porter and Prairie Ronde, and are due 75 days after levy dates. The taxes are then collected by each governmental unit and remitted to the District. The Counties of Kalamazoo and Van Buren, through their Delinquent Tax Revolving Fund, advances all delinquent real property taxes at March 1 to the District each year prior to June 30.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

As Lawton Community Schools' electors had previously (August 2020) approved a three year 18 mill operating millage extension, due to Headlee rollbacks only 17.7073 mills of non-homestead property tax was levied in the District for 2022.

The District levied 9.6 mills for debt service purposes in 2022, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A and Public Act 36, taxable property is now divided into two categories: PRE and NPRE.

A principal residence exemption property (PRE) is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage" nor any additional voted millage for the retirement of debt.

Non-principal residence exemption property (NPRE) is subject to all District levies. However, since Public Act 36, establishing the Michigan Business Tax, was signed into law, Public Acts 37-40 of 2007 now exempt Industrial Personal Property from the 6 mill State Education Tax and up to 18 mills of local school district operating millage (includes property under Industrial Facilities Tax exemptions); and exempt Commercial Personal Property from up to 12 mills of local school district operating millage (exceptions may apply).

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

The District is subject to tax abatements granted by the County of Van Buren with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended, provides a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assists in the building of new facilities, and promotes the establishment of high-tech facilities. An Industrial Facilities Exemption (IFE) certificate entitles the facility to exemption from ad valorem real and/or personal property taxes for a term up to 12 years as determined by the local unit of government. The agreements entered into by each local unit include claw back provisions should the recipient of the tax abatement fail to fully meet its commitments, such as employment levels and timelines for relocation. The tax abated property taxes are calculated by applying half the local property tax millage rate on the total IFT taxable value. This amounts to a reduction in property tax revenue of approximately 50%.

For the year ended June 30, 2023, there were no businesses located within the Lawton Community Schools District boundaries with an active IFE certificate.

Note D – Interfund Receivables/Payables and Transfers

Amounts due from (to) other funds, representing interfund receivables and payables for year-end expenditure allocations not reimbursed at June 30, 2023 are detailed as follows:

| | <u>Due From</u> | <u>Due To</u> |
|--------------------------------|-----------------|-----------------|
| <u>Major Fund</u> | | |
| General Fund: | | |
| Special Revenue Fund: | | |
| Food Service Fund | \$ - | \$ 289 |
| | | |
| <u>Nonmajor Funds</u> | | |
| Special Revenue Fund: | | |
| Food Service Fund: | | |
| General Fund | 289 | - |
| Student/School Activities Fund | 944 | - |
| Student/School Activities Fund | | |
| Food Service Fund | - | 944 |
| | | |
| Total Nonmajor Funds | 1,233 | 944 |
| | | |
| Total All Funds | \$ 1,233 | \$ 1,233 |

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

Operating transfers between funds to allocate expenditures during the year ended June 30, 2023 were as follows:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|----------------------------------|---------------------|----------------------|
| <u>Major Funds</u> | | |
| General Fund: | | |
| Special Revenue Fund: | | |
| Food Service Fund | \$ 55,000 | \$ - |
| Debt Service Fund: | | |
| 2017 QZAB | - | 174,333 |
| | 55,000 | 174,333 |
| Total Major Funds | 55,000 | 174,333 |
| <u>Nonmajor Funds</u> | | |
| Special Revenue Fund: | | |
| Food Service Fund: | | |
| General Fund | - | 55,000 |
| Debt Service Fund: | | |
| 2017 QZAB: | - | - |
| General Fund | 174,333 | - |
| | 174,333 | 55,000 |
| Total Nonmajor Funds | 174,333 | 55,000 |
| Total All Funds | \$ 229,333 | \$ 229,333 |

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2023 was as follows:

| | Balances | | | | Balances |
|---|-----------------------------|--------------------|-------------------|--------------------|-----------------------------|
| | July 1, 2022 | Additions | Deductions | Adjustments | June 30, 2023 |
| Capital assets not being depreciated: | | | | | |
| Construction in progress | \$ 3,940,863 | \$ 212,510 | \$ 4,013,589 | \$ - | \$ 139,784 |
| Capital assets being depreciated/amortized: | | | | | |
| Buildings and improvements | 33,412,672 | \$4,091,073 | \$ - | \$ - | 37,503,745 |
| Furniture and equipment | 2,888,189 | 144,798 | 11,115 | - | 3,021,872 |
| Vehicles | 1,655,662 | 51,812 | 433,849 | - | 1,273,625 |
| Right of use asset - leased equipment | - | - | - | 38,039 | 38,039 |
| Total capital assets being depreciated/amortized | <u>37,956,523</u> | <u>\$4,287,683</u> | <u>\$ 444,964</u> | <u>\$ 38,039</u> | <u>41,837,281</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | 15,656,507 | \$ 832,862 | \$ - | \$ - | 16,489,369 |
| Furniture and equipment | 2,243,972 | 123,432 | 11,115 | - | 2,356,289 |
| Vehicles | 1,173,308 | 96,146 | 433,849 | - | 835,605 |
| Less accumulated amortization for: | | | | | |
| Right of use asset - leased equipment | - | 4,234 | - | 20,535 | 24,769 |
| Total depreciation and amortization | <u>19,073,787</u> | <u>\$1,056,674</u> | <u>\$ 444,964</u> | <u>\$ 20,535</u> | <u>19,706,032</u> |
| Total capital assets being depreciated/amortized, net | <u>18,882,736</u> | | | | <u>22,131,249</u> |
| Net Capital Assets | <u><u>\$ 22,823,599</u></u> | | | | <u><u>\$ 22,271,033</u></u> |

Depreciation/amortization expense for the District was \$1,056,674. The District determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

Note F – Long-term Obligations

Changes in long-term obligations for the year ended June 30, 2023 are summarized as follows:

| | Debt Outstanding July 1, 2022 | Debt Added | Debt Retired | Adjustments | Debt Outstanding June 30, 2023 |
|------------------------------------|--|-----------------------|-------------------------|--------------------|---|
| General obligation bonds: | | | | | |
| August 12, 2015 | \$ 8,695,000 | \$ - | \$ 145,000 | \$ - | \$ 8,550,000 |
| November 15, 2017 | 2,615,000 | - | - | - | 2,615,000 |
| September 10, 2019 | 3,885,000 | - | 150,000 | - | 3,735,000 |
| November 21, 2019 | 6,920,000 | - | 1,525,000 | - | 5,395,000 |
| Bond premium | 163,528 | - | 10,728 | - | 152,800 |
| State school bond loan | 164,025 | 5,151 | 169,177 | - | - |
| Lease liabilities | - | - | 4,234 | 17,504 | 13,270 |
| Accumulated sick and vacation pay* | 353,000 | - | 188,178 | - | 164,822 |
| | <u>\$ 22,795,553</u> | <u>\$ 5,151</u> | <u>\$ 2,192,317</u> | <u>\$ 17,504</u> | <u>\$ 20,625,892</u> |

*Net change only reported, consistent with GASB Statement No. 101 implementation. See Note K.

Long-term obligations outstanding at June 30, 2023 is comprised of the following:

| | Final Maturity Dates | Interest Rates | Outstanding Balance | Amount Due Within One Year |
|---|-------------------------------------|---------------------------|--------------------------------|---|
| General Obligation Bonds | | | | |
| \$9,080K 2015 Refunding Bond Series B: | | | | |
| Annual maturities of \$1,010K to \$1,130K | May 1, 2033 | 2.00 - 4.00 | \$ 8,550,000 | \$ 1,130,000 |
| \$4,110K 2019 Building and Site Bond: | | | | |
| Annual maturities of \$250K to \$415K | May 1, 2031 | 2.50 - 3.50 | 3,735,000 | 250,000 |
| \$8,025K 2019 Refunding: | | | | |
| Annual maturities of \$550K to \$1,100K | May 1, 2030 | 2.051 - 2.55 | 5,395,000 | 550,000 |
| \$2,615K QZAB Bond: | | | | |
| Annual maturity of \$2,615K | Dec. 15, 2032 | 0.00 | 2,615,000 | - |
| Bond premium | | | 152,800 | 10,727 |
| Lease Liabilities | | | | |
| \$4,379 Copier Lease, November 1, 2020: | | | | |
| Annual maturities of \$105 | October 2024 | 7.094 | 1,599 | 1,185 |
| \$13,858 Copier Lease, August 1, 2022: | | | | |
| Annual maturities of \$275 | July 2027 | 7.094 | 11,671 | 2,554 |
| Other Obligations | | | | |
| Accumulated sick and vacation pay | | | 164,822 | 100,000 |
| | | | <u>\$20,625,892</u> | <u>\$ 2,044,466</u> |

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

The annual requirements to pay principal and interest on long-term bonds outstanding and lease liabilities are as follows:

| Years Ending June 30 | General Obligation Bonds | | Lease Liabilities | | Total |
|-------------------------|--------------------------|---------------------|-------------------|-----------------|----------------------|
| | Principal | Interest | Principal | Interest | |
| 2024 | \$ 1,930,000 | \$ 492,375 | \$ 3,739 | \$ 821 | \$ 2,426,935 |
| 2025 | 2,025,000 | 442,845 | 3,156 | 565 | 2,471,566 |
| 2026 | 2,170,000 | 389,485 | 2,943 | 358 | 2,562,786 |
| 2027 | 2,325,000 | 331,350 | 3,158 | 142 | 2,659,650 |
| 2028 | 2,460,000 | 262,700 | 274 | 2 | 2,722,976 |
| 2029 | 2,545,000 | 190,400 | - | - | 2,735,400 |
| 2030 | 1,980,000 | 115,550 | - | - | 2,095,550 |
| 2031 | 1,420,000 | 60,050 | - | - | 1,480,050 |
| 2032 | 410,000 | 16,500 | - | - | 426,500 |
| 2033 | 3,030,000 | 8,300 | - | - | 3,038,300 |
| | <u>\$ 20,295,000</u> | <u>\$ 2,309,555</u> | <u>\$ 13,270</u> | <u>\$ 1,888</u> | <u>\$ 22,619,713</u> |

Note G – Retirement Plan

Plan Description

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

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

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

The System’s financial statements are available at www.michigan.gov/orsschools.

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

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 based on when the employee became a member. The age and service requirements range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years. Early retirement is computed in the same manner as a regular pension but is permanently reduced by .50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age. Certain employees have the option to participate in the defined contribution (DC) plan that provides a 50 percent employer match (up to 3 percent of salary) on employee contributions.

The System also provides disability and survivor benefits to DB plan members.

Benefit terms provide for annual cost of living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. Some members who do not receive an annual increase are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

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

Contributions and Funded Status

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 October 1, 2021 and ending September 30, 2038.

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

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

| Plan Name | Pension Contribution Rates: | | |
|------------------------------|-----------------------------|-------------|----------|
| | Plan Status | Member | District |
| Basic | Closed | 0.0 – 4.0 % | 20.14% |
| Member Investment Plan (MIP) | Closed | 3.0 – 7.0% | 20.14% |
| Pension Plus | Closed | 3.0 – 6.4 % | 17.22% |
| Pension Plus 2 | Open | 6.2% | 19.93% |
| Defined Contribution | Open | 0.0% | 13.73% |

The District’s contributions to MPSERS under all pension plans for the year ended June 30, 2023, inclusive of the MSPERS UAAL Stabilization, totaled \$2,192,178.

Proportionate Share of Reporting Unit’s Net Pension Liability

At June 30, 2023, the District reported a liability of \$22,007,118 for its proportionate share of the 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 2021. The District’s proportion of the net pension liability was determined by dividing each employer’s statutorily required pension contributions to the System during the measurement period by the percent of the pension contributions required from all applicable employers during the measurement period. At September 30, 2022 the District’s proportion was 0.05851600%, which was an increase from 0.05712000% at September 30, 2021.

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

For the year ended June 30, 2023, the District recognized pension expense of \$45,108. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Difference between expected and actual experience | \$ 220,148 | \$ 49,206 |
| Changes of assumptions | 3,781,611 | — |
| Net difference between projected and actual earnings on pension plan investments | 51,607 | 90,648 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 440,119 | — |
| District contributions subsequent to the measurement date* | <u>2,058,264</u> | <u>—</u> |
| Total | <u>\$ 6,551,749</u> | <u>\$ 139,854</u> |

* This amount, reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Years Ending June 30 | Amount |
|-----------------------------|---------------|
| 2024 | \$ 1,232,906 |
| 2025 | 975,217 |
| 2026 | 844,828 |
| 2027 | 1,300,680 |

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 (Non-Hybrid): | 6.00% net of investment expenses |
| Pension Plus Plan (Hybrid): | 6.00% net of investment expenses |
| Pension Plus 2: | 6.00% net of investment expenses |
| Projected Salary Increases: | 2.75% - 11.55%, including wage inflation of 2.75% |
| Cost-of-Living 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. |
| Disabled Retirees: | RP-2014 Male and Female Disabled 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.

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

- 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: 5.0000.
- Full actuarial assumptions are available in the 2022 MPSERS Annual Comprehensive Financial Report found on the ORS website at (www.michigan.gov/orsschools).

Long-Term Expected Rate of Return on Investments

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:

| Investment Category | 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/Oppportunistic Pools | 10.0% | 5.8% |
| Short-term Investment Pools | 2.0% | (0.5)% |
| Total | 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 investments, 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.

Discount Rate

A discount rate of 6.0% was used to measure the total pension liability (6.0% for the Pension Plus Plan , 6.0% 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 6.0% (6.0% for the Pension Plus Plan, 6.0% for the Pension Plus 2 plan). The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension 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.

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

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

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 6.0%, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

| | 1% Decrease 5.0% | Current Single Discount Rate Assumption 6.0% | 1% Increase 7.0% |
|---|-----------------------------|---|-----------------------------|
| District’s proportionate share of the net pension liability | \$ 29,041,220 | \$ 22,007,118 | \$ 16,210,701 |

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

Detailed information about the pension plan’s fiduciary net position is available in the separately issued Michigan Public School Employees’ Retirement System September 30, 2022 Annual Comprehensive Financial Report, available here: (www.michigan.gov/orsschools).

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

Payables to the pension plan totaling \$298,614 at June 30, 2023 arise from the normal legally required contributions based on the accrued salaries payable at year end, expected to be liquidated with expendable available financial resources.

Note H – Other Postemployment Benefits

Plan Description

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

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

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

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

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

Benefits Provided

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

Retiree Healthcare Reform of 2012

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

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

Contributions and Funded Status

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

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

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

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

OPEB Contribution Rates:

| Benefit Structure | Member | District |
|--------------------------------|--------|----------|
| Premium Subsidy | 3.0% | 8.09% |
| Personal Healthcare Fund (PHF) | 0.0 % | 7.23% |

Required contributions to the OPEB plan from the District were \$472,141 for the year ended June 30, 2023.

Proportionate Share of Reporting Unit's Net OPEB Liability

At June 30, 2023, the District reported a liability of \$1,225,802 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 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 District's proportion was 0.05787376%, which was an increase from 0.05734501% at September 30, 2021.

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

For the year ended June 30, 2023, the District recognized an OPEB credit of \$7,672. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Difference between expected and actual experience | \$ — | \$ 2,400,877 |
| Changes of assumptions | 1,092,597 | 88,965 |
| Net difference between projected and actual earnings on OPEB plan investments | 95,806 | — |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 106,549 | 55,114 |
| District contributions subsequent to the measurement date* | 421,395 | — |
| Total | \$ 1,716,347 | \$ 2,544,956 |

* This amount, reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2024.

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

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

| Years Ending June 30 | Amount |
|-----------------------------|---------------|
| 2024 | \$ (465,284) |
| 2025 | (404,841) |
| 2026 | (357,206) |
| 2027 | (8,737) |
| 2028 | (15,282) |
| Thereafter | 1,346 |

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 |
| Asset Valuation Method: | Fair Value |
| Wage Inflation Rate: | 2.75% |
| Investment Rate of Return: | 6.00% net of investment expense |
| Projected Salary Increases: | 2.75% - 11.55%, including wage inflation of 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. |
| Disabled Retirees: | RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006. |

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

Other Assumptions:

| | |
|----------------------------------|--|
| Opt Out Assumptions: | 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan. |
| Survivor Coverage: | 80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death. |
| Coverage Election at Retirement: | 75% of male and 60% of female future retirees are assumed to elect coverage for one 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 OPEB 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: 5.0000.
- Full actuarial assumptions are available in the 2022 MPSERS Annual Comprehensive Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Rate of Return on Investments

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>Investment Category</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)% |
| Total | 100.0% | |

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

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

Rate of Return

For the fiscal year ended September 30, 2022, the annual money-weighted rate of return on OPEB plan investments, 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 6.0% 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 6.0%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 6.00 percent, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

| | 1% Decrease 5.0% | Current Discount Rate 6.0% | 1% Increase 7.0% |
|--|-----------------------------|---|-----------------------------|
| District's proportionate share of the net OPEB liability | \$ 2,056,166 | \$ 1,225,802 | \$ 526,534 |

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

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

| | 1% Decrease | Current Healthcare Cost Trend Rate | 1% Increase |
|--|--------------------|---|--------------------|
| District's proportionate share of the net OPEB liability | \$ 513,307 | \$ 1,225,802 | \$ 2,025,592 |

LAWTON COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2023

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2022 MPSERS Annual Comprehensive Financial Report, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan

Payables to the OPEB plan totaling \$46,588 at June 30, 2023 arise from the normal legally required contributions based on the accrued salaries payable at year end, expected to be liquidated with expendable available financial resources.

Note I – Risk Management and Benefits

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

There were no significant reductions in insurance coverage in fiscal 2022-23, and as of year ended June 30, 2023, there were no material pending claims against the District.

Note J – Stewardship, Compliance and Accountability

The District has an unrestricted net position deficit of \$13,023,936 and a total net position deficit of \$9,329,637, as of June 30, 2023. These deficit net positions result primarily from the net pension liability of \$15,595,223 and the net OPEB liability of \$2,054,411 (net of deferred outflows and inflows of resources related to the pension plan and OPEB Plan).

Note K – New Accounting Pronouncements Adopted

Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)* was adopted by the District during the fiscal year ending June 30, 2023. This statement enhances the relevance and consistency of information about governments' SBITAs by requiring recognition of right-to-use subscription assets and a corresponding subscription liability. Upon implementation, The District was not required to recognize a right-to-use subscription asset or subscription liability as of July 1, 2022. Net position as of July 1, 2022 was not required to be restated as a result of implementing the Statement.

Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences* was adopted by the District during the fiscal year ended June 30, 2023. This statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability. In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

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REQUIRED SUPPLEMENTARY INFORMATION

LAWTON COMMUNITY SCHOOLS
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2023

| | <u>Year Ended June 30, 2023</u> | <u>Year Ended June 30, 2022</u> | <u>Year Ended June 30, 2021</u> |
|---|-------------------------------------|-------------------------------------|-------------------------------------|
| District's proportion of the net pension liability | 0.05851600% | 0.05712000% | 0.05639000% |
| District's proportionate share of the net pension liability | \$ 22,007,118 | \$ 13,524,414 | \$ 19,371,612 |
| District's covered-employee payroll | \$ 6,101,214 | \$ 5,180,776 | \$ 4,959,771 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 360.70% | 261.05% | 390.57% |
| Plan fiduciary net position as a percentage of the total pension liability | 60.77% | 72.60% | 59.72% |

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB Statement No 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

| <u>Year Ended June 30, 2020</u> | <u>Year Ended June 30, 2019</u> | <u>Year Ended June 30, 2018</u> | <u>Year Ended June 30, 2017</u> | <u>Year Ended June 30, 2016</u> | <u>Year Ended June 30, 2015</u> |
|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| 0.05704000% | 0.05777000% | 0.05809000% | 0.05656000% | 0.05412000% | 0.05393000% |
| \$ 18,890,820 | \$ 17,366,984 | \$ 15,054,182 | \$ 14,110,771 | \$ 13,218,668 | \$ 11,878,292 |
| \$ 4,949,024 | \$ 4,890,010 | \$ 4,875,747 | \$ 4,870,697 | \$ 4,378,787 | \$ 4,597,223 |
| 381.71% | 355.15% | 308.76% | 289.71% | 301.88% | 258.38% |
| 60.31% | 62.36% | 64.21% | 63.27% | 63.17% | 66.20% |

LAWTON COMMUNITY SCHOOLS
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net OPEB Liability
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2023

| | <u>Year Ended June 30, 2023</u> | <u>Year Ended June 30, 2022</u> | <u>Year Ended June 30, 2021</u> |
|---|-------------------------------------|-------------------------------------|-------------------------------------|
| District's proportion of the net OPEB liability | 0.05787376% | 0.05735000% | 0.05590000% |
| District's proportionate share of the net OPEB liability | \$ 1,225,802 | \$ 875,302 | \$ 2,994,685 |
| District's covered-employee payroll | \$ 6,101,214 | \$ 5,180,776 | \$ 4,959,771 |
| District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll | 20.09% | 16.90% | 60.68% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 83.09% | 87.33% | 59.44% |

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB Statement No 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

| <u>Year Ended June 30, 2020</u> | <u>Year Ended June 30, 2019</u> | <u>Year Ended June 30, 2018</u> |
|-------------------------------------|-------------------------------------|-------------------------------------|
| 0.05653000% | 0.05732000% | 0.05795000% |
| \$ 4,057,485 | \$ 4,556,455 | \$ 5,131,328 |
| \$ 4,949,024 | \$ 4,890,010 | \$ 4,875,747 |
| 81.99% | 93.18% | 105.24% |
| 48.46% | 42.95% | 36.39% |

**LAWTON COMMUNITY SCHOOLS
Required Supplementary Information
Schedule of District Pension Contributions
MPERS Cost-sharing Multiple-employer Plan
June 30, 2023**

| | <u>Year Ended June 30, 2023</u> | <u>Year Ended June 30, 2022</u> | <u>Year Ended June 30, 2021</u> |
|---|-------------------------------------|-------------------------------------|-------------------------------------|
| Contractually required contribution | \$ 2,192,178 | \$ 1,715,227 | \$ 1,549,753 |
| Contributions in relation to the contractually required contribution | <u>2,192,178</u> | <u>1,715,227</u> | <u>1,549,753</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered-employee payroll | \$ 5,997,198 | \$ 5,568,550 | \$ 5,032,875 |
| Contributions as a percentage of covered employee payroll | 36.55% | 30.80% | 30.79% |

Note: GASB Statement No 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

| <u>Year Ended June 30, 2020</u> | <u>Year Ended June 30, 2019</u> | <u>Year Ended June 30, 2018</u> | <u>Year Ended June 30, 2017</u> | <u>Year Ended June 30, 2016</u> | <u>Year Ended June 30, 2015</u> |
|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| \$ 1,515,377 | \$ 1,573,115 | \$ 1,362,573 | \$ 1,270,040 | \$ 1,044,033 | \$ 837,523 |
| <u>1,515,377</u> | <u>1,573,115</u> | <u>1,362,573</u> | <u>1,270,040</u> | <u>1,044,033</u> | <u>837,523</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$ 4,967,656 | \$ 4,935,042 | \$ 4,852,785 | \$ 4,822,820 | \$ 4,673,239 | \$ 4,587,549 |
| 30.50% | 31.88% | 28.08% | 26.33% | 22.34% | 18.26% |

LAWTON COMMUNITY SCHOOLS
Required Supplementary Information
Schedule of District OPEB Contributions
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2023

| | <u>Year Ended June 30, 2023</u> | <u>Year Ended June 30, 2022</u> | <u>Year Ended June 30, 2021</u> |
|---|-------------------------------------|-------------------------------------|-------------------------------------|
| Contractually required contribution | \$ 472,141 | \$ 425,698 | \$ 394,944 |
| Contributions in relation to the contractually required contribution | <u>472,141</u> | <u>425,698</u> | <u>394,944</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered-employee payroll | \$ 5,997,198 | \$ 5,568,550 | \$ 5,032,875 |
| Contributions as a percentage of covered employee payroll | 7.87% | 7.64% | 7.85% |

Note: GASB Statement No 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

| <u>Year Ended June 30, 2020</u> | <u>Year Ended June 30, 2019</u> | <u>Year Ended June 30, 2019</u> |
|-------------------------------------|-------------------------------------|-------------------------------------|
| \$ 388,130 | \$ 372,072 | \$ 451,128 |
| <u>388,130</u> | <u>372,072</u> | <u>451,128</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$ 4,967,656 | \$ 4,935,042 | \$ 4,852,785 |
| 7.81% | 7.54% | 9.30% |

LAWTON COMMUNITY SCHOOLS
Notes to Required Supplementary Information
June 30, 2023

Note A - Net Pension Liability and Contributions

Changes of benefit terms: There were no changes of benefit terms in 2022-23.

Changes of assumptions: There were no changes of benefit assumptions in 2022-23.

Note B - Net OPEB Liability and Contributions

Changes of benefit terms: There were no changes of benefit terms in 2022-23.

Changes of assumptions: There were no changes of benefit assumptions in 2022-23.

SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

LAWTON COMMUNITY SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2023

| | Special Revenue | | Debt Service | |
|--|-------------------|------------------------------|-------------------|------------------|
| | Food Service | Student/School Activities | 2015B | 2019A |
| Assets | | | | |
| Cash equivalents and investments | \$ 406,037 | \$ 167,656 | \$ 126,545 | \$ 74,974 |
| Accounts receivable | 855 | - | - | - |
| Due from other funds | 1,233 | - | - | - |
| Due from other governmental units | 5,006 | - | - | - |
| Inventory | 18,838 | - | - | - |
| Prepaid expenditures | 3,072 | - | - | - |
| Total Assets | \$ 435,041 | \$ 167,656 | \$ 126,545 | \$ 74,974 |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts payable | \$ - | \$ 7,743 | \$ - | \$ - |
| Due to other funds | - | 944 | - | - |
| Accrued expenditures | 47 | - | - | - |
| Salaries payable | 750 | - | - | - |
| Unearned revenue | 11,966 | - | - | - |
| Total Liabilities | 12,763 | 8,687 | - | - |
| Fund Balances | | | | |
| Nonspendable | 21,910 | - | - | - |
| Committed | 50,000 | - | - | - |
| Restricted | 350,368 | 158,969 | 126,545 | 74,974 |
| Total Fund Balances | 422,278 | 158,969 | 126,545 | 74,974 |
| Total Liabilities and Fund Balances | \$ 435,041 | \$ 167,656 | \$ 126,545 | \$ 74,974 |

| <u>Capital Projects</u> | |
|------------------------------|-------------------|
| <u>2019 Construction</u> | <u>Total</u> |
| \$ 185,118 | \$ 960,330 |
| - | 855 |
| - | 1,233 |
| - | 5,006 |
| - | 18,838 |
| - | 3,072 |
| <u>\$ 185,118</u> | <u>\$ 989,334</u> |

| | |
|----------|---------------|
| \$ - | \$ 7,743 |
| - | 944 |
| - | 47 |
| - | 750 |
| - | 11,966 |
| <u>-</u> | <u>21,450</u> |

| | |
|-------------------|-------------------|
| - | 21,910 |
| - | 50,000 |
| <u>185,118</u> | <u>895,974</u> |
| <u>185,118</u> | <u>967,884</u> |
| <u>\$ 185,118</u> | <u>\$ 989,334</u> |

LAWTON COMMUNITY SCHOOLS
Combining Statement of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2023

| | Special Revenue | | Debt Service | |
|--|-------------------|---------------------------|-------------------|------------------|
| | Food Service | Student/School Activities | 2015B | 2019A |
| Revenues | | | | |
| Local sources: | | | | |
| Property taxes | \$ - | \$ - | \$ 355,662 | \$ 274,719 |
| Interest earnings | 1,503 | - | 2,501 | 1,737 |
| Food sales | 167,986 | - | - | - |
| Other | 12,514 | 251,331 | - | - |
| Total local sources | 182,003 | 251,331 | 358,163 | 276,456 |
| State sources | 32,150 | - | 12,966 | 10,015 |
| Federal sources | 709,394 | - | - | - |
| Total Revenues | 923,547 | 251,331 | 371,129 | 286,471 |
| Expenditures | | | | |
| Current: | | | | |
| Food service | 963,220 | - | - | - |
| Supporting services | - | 260,988 | - | - |
| Capital outlay | - | - | - | - |
| Debt service: | | | | |
| Principal repayment | - | - | 145,000 | 167,270 |
| Interest and fiscal charges | - | - | 251,600 | 123,730 |
| Total Expenditures | 963,220 | 260,988 | 396,600 | 291,000 |
| Excess (Deficiency) of Revenues Over Expenditures | (39,673) | (9,657) | (25,471) | (4,529) |
| Other Financing Sources (Uses) | | | | |
| Transfers out | (55,000) | - | - | - |
| Other transactions | 400 | - | - | - |
| Total Other Financing Sources (Uses) | (54,600) | - | - | - |
| Net Change in Fund Balances | (94,273) | (9,657) | (25,471) | (4,529) |
| Fund Balances, Beginning of Year | 516,551 | 168,626 | 152,016 | 79,503 |
| Fund Balances, End of Year | \$ 422,278 | \$ 158,969 | \$ 126,545 | \$ 74,974 |

| <u>Capital Projects 2019 Construction</u> | <u>Total</u> |
|---|-------------------|
| \$ - | \$ 630,381 |
| 8,989 | 14,730 |
| - | 167,986 |
| - | 263,845 |
| 8,989 | 1,076,942 |
| - | 55,131 |
| - | 709,394 |
| 8,989 | 1,841,467 |
| - | 963,220 |
| - | 260,988 |
| 104,769 | 104,769 |
| - | 312,270 |
| - | 375,330 |
| 104,769 | 2,016,577 |
| (95,780) | (175,110) |
| - | (55,000) |
| - | 400 |
| - | (54,600) |
| (95,780) | (229,710) |
| 280,898 | 1,197,594 |
| <u>\$ 185,118</u> | <u>\$ 967,884</u> |

LAWTON COMMUNITY SCHOOLS
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2023

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--|-------------------|-------------------|-----------------|
| Revenues | | | |
| Local sources | \$ 184,146 | \$ 182,003 | \$ (2,143) |
| State sources | 32,247 | 32,150 | (97) |
| Federal sources | 690,582 | 709,394 | 18,812 |
| Total Revenues | <u>906,975</u> | <u>923,547</u> | <u>16,572</u> |
| Expenditures | | | |
| Current: | | | |
| Food service | 950,918 | 963,220 | (12,302) |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(43,943)</u> | <u>(39,673)</u> | <u>4,270</u> |
| Other Financing Sources (Uses) | | | |
| Transfers out | (56,000) | (55,000) | 1,000 |
| Other transactions | 200 | 400 | 200 |
| Total Other Financing Sources (Uses) | <u>(55,800)</u> | <u>(54,600)</u> | <u>1,200</u> |
| Net Change in Fund Balance | (99,743) | (94,273) | 5,470 |
| Fund Balances, Beginning of Year | <u>516,551</u> | <u>516,551</u> | <u>-</u> |
| Fund Balances, End of Year | <u>\$ 416,808</u> | <u>\$ 422,278</u> | <u>\$ 5,470</u> |

LAWTON COMMUNITY SCHOOLS
Student/School Activity Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2023

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--|--------------------------|--------------------------|--------------------------|
| Revenues | | | |
| Local sources | <u>\$ 253,249</u> | <u>\$ 251,331</u> | <u>\$ (1,918)</u> |
| Expenditures | | | |
| Current: | | | |
| Food service | <u>257,914</u> | <u>260,988</u> | <u>(3,074)</u> |
| Net Change in Fund Balance | <u>(4,665)</u> | <u>(9,657)</u> | <u>(4,992)</u> |
| Fund Balance, Beginning of Year | <u>168,626</u> | <u>168,626</u> | <u>-</u> |
| Fund Balance, End of Year | <u><u>\$ 163,961</u></u> | <u><u>\$ 158,969</u></u> | <u><u>\$ (4,992)</u></u> |

LAWTON COMMUNITY SCHOOLS
Kalamazoo and Van Buren Counties, Michigan

Additional Reports Required by
the Uniform Guidance

For the year ended June 30, 2023

TABLE OF CONTENTS

LAWTON COMMUNITY SCHOOLS

For the year ended June 30, 2023

| | |
|--|-----------|
| 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 <i>Government Auditing Standards</i> | 1 |
| Independent Auditor’s Report on Compliance for the Major Program and on Internal Control Over Compliance Required by the Uniform Guidance | 3 |
| Schedule of Expenditures of Federal Awards | 8 |
| Notes to Schedule of Expenditures of Federal Awards | 14 |
| Schedule of Findings and Questioned Costs | 16 |
| Summary Schedule of Prior Audit Findings | 18 |

**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***

October 24, 2023

The Board of Education
Lawton Community Schools
Van Buren County, 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 Lawton Community Schools, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Lawton Community Schools' basic financial statements, and have issued our report thereon dated October 24, 2023.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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



Certified Public Accountants
Grand Rapids, Michigan

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

October 24, 2023

The Board of Education
Lawton Community Schools
Van Buren County, Michigan

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Lawton Community Schools' 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 Lawton Community Schools' major federal program for the year ended June 30, 2023. Lawton Community Schools' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Lawton Community Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2023.

Basis for Opinion on the 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 Lawton Community Schools 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 the major federal program. Our audit does not provide a legal determination Lawton Community Schools' 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 the provisions of contracts or grant agreements applicable to Lawton Community Schools' federal programs.

Auditor's Responsibility 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 Lawton Community Schools' 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 Lawton Community Schools' compliance with the requirements of the 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 Lawton Community Schools' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Lawton Community Schools' 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 Lawton Community Schools' 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lawton Community Schools, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise of Lawton Community Schools' basic financial statements. We issued our report thereon dated October 24, 2023, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Certified Public Accountants
Grand Rapids, Michigan

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

LAWTON COMMUNITY SCHOOLS

For the year ended June 30, 2023

| Federal Grantor Pass Through Grantor Program Title Grant Number | Federal Assistance Listing Number | Approved Grant Award Amount |
|---|--|-----------------------------------|
| U.S. Department of Education | | |
| Passed Through Michigan Department of Education (MDE): | | |
| Title I, Part A: | 84.010 | |
| 221530 2122 | | \$ 151,254 |
| 231530 2223 | | <u>149,186</u> |
| Total Title I, Part A | | <u>300,440</u> |
| | | |
| Title II, Part A: | 84.367 | |
| 220520 2122 | | 24,691 |
| 230520 2223 | | <u>27,821</u> |
| Total Title II, Part A | | <u>52,512</u> |
| | | |
| Title IV, Part A: | 84.424 | |
| 220570 2122 | | 10,363 |
| 230570 2223 | | <u>10,000</u> |
| Total Title IV, Part A | | <u>20,363</u> |
| | | |
| Education Stabilization Fund: | 84.424 | |
| 211202 2122 GEER II - Teacher & Support Staff Payments | 84.424C | 10,500 |
| 213722 2122 ESSER II - Summer Programming K-8 | 84.424D | 68,750 |
| 213742 2122 ESSER II - Credit Recovery 9-12 | 84.424D | 31,350 |
| 213752 2122 ESSER II - Before & After School | 84.424D | 25,000 |
| 213762 2122 ESSER II - Benchmark Assessments | 84.424D | 8,213 |
| 213782 2223 ESSER II - 98c Learning Loss | 84.424D | 51,922 |
| 213713 2122 ARP/ESSER III | 84.424U | <u>1,097,799</u> |
| Total Education Stabilization Fund | | <u>1,293,534</u> |
| | | |
| Total Passed Through MDE | | <u>1,666,849</u> |

See Notes to Schedule of Expenditures of Federal Awards.

| Accrued (Deferred) Revenue At July 1, 2022 | (Memo Only) Prior Year Expenditures | Current Year Expenditures | Current Year Receipts (Cash Basis) | Accrued (Deferred) Revenue At June 30, 2023 |
|---|--|--------------------------------------|---|--|
| \$ 51,254 | \$ 130,931 | \$ - | \$ 51,254 | \$ - |
| - | - | 146,007 | 118,000 | 28,007 |
| 51,254 | 130,931 | 146,007 | 169,254 | 28,007 |
| 8,691 | 24,691 | - | 8,691 | - |
| - | - | 27,821 | 27,821 | - |
| 8,691 | 24,691 | 27,821 | 36,512 | - |
| 3,763 | 10,363 | - | 3,763 | - |
| - | - | 10,000 | 10,000 | - |
| 3,763 | 10,363 | 10,000 | 13,763 | - |
| 10,500 | 10,500 | - | 10,500 | - |
| 51,319 | 51,319 | 13,149 | 62,443 | 2,025 |
| 19,919 | 19,919 | 10,885 | 26,530 | 4,274 |
| 20,685 | 20,685 | 4,315 | 20,685 | 4,315 |
| 8,213 | 8,213 | - | 8,213 | - |
| - | - | 51,922 | 51,922 | - |
| 751,983 | 751,983 | 345,816 | 978,983 | 118,816 |
| 862,619 | 862,619 | 426,087 | 1,159,276 | 129,430 |
| 926,327 | 1,028,604 | 609,915 | 1,378,805 | 157,437 |

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

LAWTON COMMUNITY SCHOOLS

For the year ended June 30, 2023

| Federal Grantor Pass Through Grantor Program Title Grant Number | Federal Assistance Listing Number | Approved Grant Award Amount |
|--|--|--|
| Passed through Berrien Regional Education Service Agency (Berrien RESA): Education for Homeless Children and Youth: 232320 2223 | 84.196 | \$ 5,742 |
| Total Passed Through Berrien RESA | | 5,742 |
| Total U.S Department of Education | | 1,672,591 |
| U.S. Department of Health and Human Services | | |
| Passed Through Van Buren ISD: Medicaid Cluster: Medical Assistance Program | 93.778 | 316 |
| Total U.S Department of Health and Human Services | | 316 |
| U.S. Department of Agriculture | | |
| Passed Through Michigan Department of Education (MDE): Child Nutrition Cluster: Non-Cash Assistance (USDA Commodities) Entitlement Commodities Bonus Commodities | 10.555 | 53,221 1,592 |
| Total Non-Cash Assistance | | 54,813 |

See Notes to Schedule of Expenditures of Federal Awards.

| Accrued (Deferred) Revenue At July 1, 2022 | (Memo Only) Prior Year Expenditures | Current Year Expenditures | Current Year Receipts (Cash Basis) | Accrued (Deferred) Revenue At June 30, 2023 |
|---|--|--------------------------------------|---|--|
| \$ - | \$ - | \$ 5,742 | \$ 5,742 | \$ - |
| - | - | 5,742 | 5,742 | - |
| 926,327 | 1,028,604 | 615,657 | 1,384,547 | 157,437 |
| - | - | 316 | - | 316 |
| - | - | 316 | - | 316 |
| - | - | 53,221 | 53,221 | - |
| - | - | 1,592 | 1,592 | - |
| - | - | 54,813 | 54,813 | - |

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

LAWTON COMMUNITY SCHOOLS

For the year ended June 30, 2023

| Federal Grantor Pass Through Grantor Program Title Grant Number | Federal Assistance Listing Number | Approved Grant Award Amount |
|--|--|--|
| School Breakfast Program: | 10.553 | |
| 221970 | | \$ 30,232 |
| 231970 | | 209,630 |
| | | <hr/> |
| Total School Breakfast Program | | 239,862 |
| | | <hr/> |
| National School Lunch Program: | 10.555 | |
| 220910 | | 23,612 |
| 221960 | | 45,959 |
| 230910 | | 15,098 |
| 231960 | | 330,050 |
| | | <hr/> |
| Total National School Lunch Program | | 414,719 |
| | | <hr/> |
| Total Cash Assistance | | 654,581 |
| | | <hr/> |
| Total Child Nutrition Cluster | | 709,394 |
| | | <hr/> |
| Pandemic EBT Administrative Costs: | 10.649 | |
| 220980 2022 | | 628 |
| | | <hr/> |
| Total U.S Department of Agriculture | | 710,022 |
| | | <hr/> |
| Total Federal Financial Assistance | | <u>\$ 2,382,929</u> |

See Notes to Schedule of Expenditures of Federal Awards.

| Accrued (Deferred) Revenue At July 1, 2022 | (Memo Only) Prior Year Expenditures | Current Year Expenditures | Current Year Receipts (Cash Basis) | Accrued (Deferred) Revenue At June 30, 2023 |
|---|--|--------------------------------------|---|--|
| \$ - | \$ - | \$ 30,232 | \$ 30,232 | \$ - |
| - | - | 209,630 | 209,630 | - |
| - | - | 239,862 | 239,862 | - |
| - | - | 23,612 | 23,612 | - |
| - | - | 45,959 | 45,959 | - |
| - | - | 15,098 | 15,098 | - |
| - | - | 330,050 | 330,050 | - |
| - | - | 414,719 | 414,719 | - |
| - | - | 654,581 | 654,581 | - |
| - | - | 709,394 | 709,394 | - |
| - | - | 628 | 628 | - |
| - | - | 710,022 | 710,022 | - |
| <u>\$ 926,327</u> | <u>\$ 1,028,604</u> | <u>\$ 1,325,995</u> | <u>\$ 2,094,569</u> | <u>\$ 157,753</u> |

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

LAWTON COMMUNITY SCHOOLS

For the year ended June 30, 2023

Note A – Basis of Presentation

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

Note B – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note C – Indirect Cost Rate

Lawton Community Schools has elected not to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

Note D – Grant Section Auditor Report

Management has utilized the MDE NexSys Grant Application and Cash Management Grant Auditor Report (GAR) in preparing the Schedule of Expenditures of Federal Awards.

Note E – Non-Cash Assistance

The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with the Schedule for USDA donated food commodities.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

LAWTON COMMUNITY SCHOOLS

For the year ended June 30, 2023

Note F – Federal Income Reconciliation

| | Grant Expenditures Per Schedule of Federal Financial Assistance | Federal Revenue Per Financial Statements | Difference |
|---|--|---|-------------------|
| Title I, Part A | \$ 146,007 | \$ 146,007 | \$ - |
| Title II, Part A | 27,821 | 27,821 | - |
| Title IV, Part A | 10,000 | 10,000 | - |
| ESSER Stabilization Fund | 426,087 | 426,087 | - |
| Education for Homeless Children and Youth | 5,742 | 5,742 | - |
| Medicaid Cluster | 316 | 316 | - |
| Child Nutrition Cluster | 709,394 | 709,394 | - |
| Pandemic EBT Administrative Costs | 628 | 628 | - |
| | <u>\$ 1,325,995</u> | <u>\$ 1,325,995</u> | <u>\$ -</u> |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LAWTON COMMUNITY SCHOOLS

For the year ended June 30, 2023

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X 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 the Uniform Guidance?

_____ Yes X No

Identification of major programs audited:

84.425 - Education Stabilization Fund

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

LAWTON COMMUNITY SCHOOLS

For the year ended June 30, 2023

Section I - Summary of Auditor's Results (Continued)

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

\$750,000

Auditee qualified as a low-risk auditee?

X Yes No

Section II - Financial Statements Audit Findings

There were no findings that are required to be reported under *Government Auditing Standards*.

Section III – Major Federal Award Programs Findings and Questioned Costs

There were no findings that are required to be reported under *Government Auditing Standards*.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

LAWTON COMMUNITY SCHOOLS

For the year ended June 30, 2023

2022-01 Excess Fund Balance

Finding Type: Significant deficiency in internal control over compliance and noncompliance with laws and regulations.

Program(s) Impacted: 10.553, 10.555, 10.559, 10.649

Criteria: The District's fund balance in the food service fund is required to be less than three months of food service expenditures.

Condition: Lawton Community Schools currently has more than the allowable fund balance in the non-profit food service fund. As a result, the District will be required to develop a spending plan to reduce the balance to an acceptable level during the 2022-2023 school year. The plan must be submitted to the Michigan Department of Education prior to implementation. Excess funds cannot be transferred to another fund.

Cause: The District participated in the unanticipated closure meal reimbursements from July through June causing a larger than normal increase in the food service fund balance.

Recommendation: The District should implement a budget, as well as the required corrective action plan for the 2022-2023 school year that will adequately reduce the food service fund balance.

Resolution: The Food Service Fund has an excess fund balance as of June 30, 2023, however, noncompliance has not been repeated in an audit finding, as the requirement is not required to be reported in accordance with Uniform Guidance or program-specific federal compliance supplements. We have communicated such information in our letter to governance dated October 24, 2023,

October 24, 2023

The Board of Education
Lawton Community Schools
Kalamazoo and Van Buren Counties, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lawton Community Schools for the year ended June 30, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and Government Auditing Standards and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letters to you dated August 23, 2023 and May 26, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Lawton Community Schools are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2023. We noted no transactions entered into by the governmental unit 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 Government-Wide financial statements were:

Management's estimate of the liability of the payout for the employee compensated absences upon their retirement is based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the lives of capital assets. We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole. Certain amounts included in capital assets have been estimated by appraisers based on historical information for assets placed in service prior to implementation of GASB Statement No. 34.

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements were related to the District's share of the net pension and net OPEB liabilities related to GASB Statements No. 68 and 75.

The disclosure of the net pension liability and the net OPEB liability in the Notes to the financial statements were recorded as of June 30, 2023 based on information received from the Michigan Office of Retirement Services. We evaluated the key factors and assumptions used to develop these liabilities in determining that it is reasonable in relation to the financial statements taken as a whole.

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 trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole. There were no significant adjustments derived from the audit process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the 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 October 24, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matter, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit'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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Per 7 CFR Part 210.14(b), and as detailed in the Michigan Department of Education (MDE) School Auditing Manual, the District must limit its net cash resources in the Food Service Fund to an amount that does not exceed 3 months average expenditures for its nonprofit school food service. Due to the impact of the COVID-19 pandemic on the School Nutrition Program, which resulted in increased reimbursement rates for meals served, many school districts in the State, including Lawton Community Schools, now have an excess fund balance and must work with MDE to gain approval of a spend down plan for the subsequent school year. To assist in MDE monitoring efforts, all CPA firms performing audits of school districts in Michigan have been asked to identify districts with excess fund balance though this required communication with governance. An audit finding has not been included in the Single Audit report that accompanies this letter, as excess fund balance requirements are not detailed in the Office of Management and Budget's Compliance Supplement for the Child Nutrition Cluster of Programs.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis and Schedules related to the Proportionate Share and Contributions of the District's Net Pension and Net OPEB Liabilities, 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 combining and individual fund statements and schedules, which accompany the financial statements but are 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.

Other Comments

The District General Fund balance increased by \$742,704 to \$4,790,520 at June 30, 2023. This balance represents approximately 33.85 percent of the District's 2023-24 expenditure budget (up from 33.16 percent at June 30, 2022). Maintaining a fund balance of at least 10 to 20 percent of the ensuing year's expenditure budget is advisable for Lawton Community Schools. This gives the District more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District.

Restriction on Use

This communication is intended solely for the information and use of the Lawton Community Schools Board of Education and management and is not intended to be, and should not be, used by anyone other than these specified parties. We have furnished a copy of this letter to the Michigan Departments of Education and Treasury as an enclosure with the audited financial statements as required by the State of Michigan.



Certified Public Accountants