HASTINGS AREA SCHOOL SYSTEM

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional supplementary information)

YEAR ENDED JUNE 30, 2019

Maner Costerisan
Certified Public Accountants
Business & Technology Advisors

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Hastings Area School System

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hastings Area School System, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Hastings Area School System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issue by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hastings Area School System as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hastings Area School System basic financial statements. The additional supplementary information, as identified in the table of contents, including the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplementary 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 additional supplementary 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 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 additional supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated October 16, 2019 on our consideration of Hastings Area School System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hastings Area School System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hastings Area School System's internal control over financial reporting and compliance.

Maner Costerisan PC

October 16, 2019

HASTINGS AREA SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

This section of the Hastings Area School System ("District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2019. Please read it in conjunction with the District's financial statements which immediately follow this section.

District-Wide Financial Statements

The first two statements are District-wide financial statements that provide short-term and long-term financial information about the District's overall financial status. These statements are required by generally accepted accounting principles (GAAP) as described in the Government Accounting Standards Board (GASB) Statement No. 34. The statements are compiled using the full accrual basis of accounting and more closely represent financial statements presented by business and industry. All of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, both short- and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt and other long-term obligations of the District resulting in total net position.

Over time, increases or decreases in the District's net position is one indicator of whether its financial position is improving or deteriorating. To assess the District's overall financial health, one should consider additional factors which may include the State's and/or region's economic condition, changes in the District's property tax base, and age and condition of its capital assets.

Fund Financial Statements

For the most part, the fund financial statements are comparable to financial statements for the previous fiscal year. The fund level statements are reported on a modified accrual basis in that only those assets that are deemed "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The formats of the fund statements comply with requirements of the Michigan Department of Education's "Accounting Manual". In the state of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds categorized as Special Revenue, Debt Service, and Capital Projects Funds.

In addition to the governmental fund types mentioned above, the District is the trustee, or fiduciary, for assets that belong to others, typically student groups. The District is responsible for ensuring that the assets reported in these accounts are used only for their intended purposes by the groups to whom the assets belong. These monies are accounted for in the Student Activity Fund and the related financial activity is appropriately excluded from the District-wide financial statements as the assets do not belong to the District.

In the fund financial statements, capital assets purchased are considered expenditures in the year of acquisition with no asset being reported. The issuance of debt is treated as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

Summary of Net Position

The following schedule summarizes the net position for the fiscal years ended June 30, 2019 and 2018:

	June 30, 2019	June 30, 2018
Assets		
Current and other assets	$ 13,836,207	$ 25,307,773
Capital assets	62,052,808	54,943,347
Total assets	75,889,015	80,251,120
Deferred outflows	16,173,043	9,492,693
Liabilities		
Long-term debt outstanding	52,881,101	55,384,615
Other liabilities	4,247,873	8,112,809
Net pension liability	41,510,705	36,563,482
Net other postemployment benefits liability	10,855,403	12,526,666
Total liabilities	109,495,082	112,587,572
Deferred inflows	8,298,535	4,312,316
Net position		
Net investment in capital assets	14,618,279	12,274,486
Restricted	1,767,600	2,393,084
Unrestricted	(42,117,438)	(41,823,645)
Total net position	$ (25,731,559)	$ (27,156,075)

Analysis of Financial Position

During the fiscal year ended June 30, 2019, the District's net position increased by $1,424,516. A few of the more significant factors affecting net position during the year are discussed below:

- Cash Equivalents, Deposits and Investments

  At June 30, 2019, the District's cash equivalents, deposits and investments amounted to $9,967,487 (including fiduciary funds). This represented a decrease of $12,093,826 from the previous year, primarily as a result of increased spending on capital improvements across the District using bond proceeds previously issued.

- Capital Outlay Acquisitions

  For the fiscal year ended June 30, 2019, $8,325,659 of expenditures were capitalized and recorded as capital assets of the District. These additions to the District's capital assets will be depreciated over time as explained below.

  The net effect of the new capital assets, assets disposed of during the fiscal year, and the current year's depreciation is a net increase to capital assets in the amount of $7,109,461 for the fiscal year ended June 30, 2019.

- Depreciation Expense

  GASB 34 requires school districts to maintain records of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in the net position.

- Bonded Debt and Debt from Direct Borrowings

  For the fiscal year ended June 30, 2019, the District's bonded debt and debt from direct borrowings decreased by $2,919,623 as a result of repayment of previously-issued debt. At fiscal year-end, approximately $52.4 million was outstanding with $3.0 million due within one year.

- Accumulated Compensated Absences

  At June 30, 2019, the District had an obligation to employees for the portion of unearned compensated absences that they would be entitled to upon separation in the amount of approximately $416,000.

Results of Operations

For the fiscal years ended June 30, 2019 and 2018, the results of operations, on a District-wide basis, were:

	Fiscal Year Ended June 30, 2019		Fiscal Year Ended June 30, 2018	
	Amount	%	Amount	%
General Revenues				
Property taxes	$ 8,124,104	24.81%	$ 8,226,182	25.65%
State sources, unrestricted	17,252,696	52.68%	16,565,690	51.64%
Investment earnings	278,513	0.85%	376,450	1.17%
Other	444,494	1.36%	198,566	0.62%
Total general revenues	26,099,807	79.70%	25,366,888	79.08%
Program Revenues				
Charges for services	1,219,923	3.72%	1,120,164	3.49%
Operating grants	5,283,428	16.13%	5,419,776	16.89%
Capital grants and contributions	146,465	0.45%	172,530	0.54%
Total revenue	32,749,623	100.00%	32,079,358	100.00%
Expenses				
Instruction	17,612,833	56.23%	15,244,264	51.72%
Support services	9,583,232	30.59%	8,867,833	30.08%
Community service	880,670	2.81%	792,106	2.69%
Food services	1,059,751	3.38%	1,008,812	3.42%
Interest on long-term debt	2,188,621	6.99%	1,899,737	6.44%
Depreciation - unallocated	-	0.00%	1,664,828	5.65%
Total expenses	31,325,107	100.00%	29,477,580	100.00%
Change in net position	$ 1,424,516		$ 2,601,778	

Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

- Property Taxes

  The District levied 17.9262 mills of property taxes for operations on non-principal residence exempt property for the 2018 tax year. According to Michigan law, the tax levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of increase in the prior year's Consumer Price Index or 5%, whichever is less. At the time that property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is one half of the property's market value. At June 30, 2019, there were no unpaid property taxes.

- State Sources

  The majority of the unrestricted state sources of revenues is comprised of the per student foundation allowance. The State of Michigan funds school districts based on a blended student enrollment which is calculated using 90% of the 2018 calendar year's fall count (October) and 10% of the 2018 calendar year's spring count (February). For the 2018-2019 fiscal year, the District received $7,871 per student full time equivalent. The student foundation allowance amount increased by $240 when compared to the 2017-2018 fiscal year.

- Operating Grants

  The District receives a significant portion of its operating revenue from categorical grants. For the fiscal year ended June 30, 2019, federal, state, and other grants amounted to $5,283,428. This represents an 2.5% decrease from the $5,419,776 received for the 2017-2018 fiscal year.

Comparative Expenditures

A comparison of the expenditures reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances is shown below:

Expenditures	2018 - 2019	2017 - 2018	Increase (Decrease)
Instruction	$ 15,771,882	$ 15,177,745	$ 594,137
Supporting services	8,848,170	9,231,798	(383,628)
Community services	866,179	790,597	75,582
Food service activities	1,037,750	1,006,891	30,859
Capital outlay	9,204,311	19,052,791	(9,848,480)
Debt service	4,825,352	5,229,248	(403,896)
Total expenditures	$ 40,553,644	$ 50,489,070	$ (9,935,426)

General Fund Budgetary Highlights

The Uniform Budgeting Act of the State of Michigan requires that the local Board of Education approve the annual operating budget prior to the start of the fiscal year on July 1. Any amendments to the original budget must be approved by the Board prior to the close of the fiscal year on June 30, 2019.

The following schedule shows a comparison of the original general fund budget, the final amended budget, and actual totals from operations for the fiscal year ending June 30, 2019.

	Original Budget	Final Budget	Actual	Final Variance with Budget	% Variance
Total revenues	$ 24,563,472	$ 25,460,052	$ 25,473,649	$ 13,597	0.05%
Expenditures					
Instruction	$ 15,421,196	$ 15,904,451	$ 15,771,882	$ 132,569	0.83%
Support	8,615,874	8,889,030	8,848,170	40,860	0.46%
Community service	6,820	14,463	7,520	6,943	48.01%
Debt service	394,387	394,417	394,415	2	0.00%
Total expenditures	$ 24,438,277	$ 25,202,361	$ 25,021,987	$ 180,374	0.72%
Other financing sources (uses)	$ (100,000)	$ (185,000)	$ (227,500)	$ (42,500)	22.97%

The original budget adopted by the Board in June 2018 was amended three times during the year. The amendments, approved in December 2018, April 2019, and June 2019, reflected necessary changes to both revenues and expenditures based on projections made by the Associate Superintendent of Operations.

Capital Asset and Debt Administration

Capital Assets

By the end of the 2018-2019 fiscal year, the District had invested approximately $98.3 million as the original cost in a broad range of capital assets, including land, construction in progress, school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents a net increase of $8,325,659 over the prior fiscal year after depreciation. Depreciation expense for the year amounted to $1,216,198, bringing the accumulated depreciation to roughly $36.3 million as of June 30, 2019. For more information related to capital assets, see Note 4.

	Cost	Accumulated Depreciation	2019 Net Book Value	2018 Net Book Value
Land	$ 53,410	$ -	$ 53,410	$ 53,410
Construction in progress	40,056,099	-	40,056,099	31,797,228
Buildings and building improvements	48,152,065	26,912,326	21,239,739	22,261,300
Buses and other vehicles	2,638,443	2,149,994	488,449	572,554
Furniture and equipment	7,422,196	7,207,085	215,111	258,855
Total	$ 98,322,213	$ 36,269,405	$ 62,052,808	$ 54,943,347

Long-term Obligations

At June 30, 2019, the District had approximately $52.9 million in long-term obligations of which $52.1 million was comprised of outstanding bonded debt and the remainder is installment loans. The long-term obligations decreased during the year with $2,919,623 of previously outstanding bonds being redeemed and payments on the installment loans. In addition to the bonded debt and installment loans, the District has obligations for compensated absences estimated at approximately $416,000.

Factors Bearing on the District's Future

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

- The District's elected officials and administration considered many factors when setting the District's 2019/2020 fiscal year budgets. One of the most important factors affecting the budget is the student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2020 fiscal year is 90% and 10% of the October 2019 and February 2019 student counts, respectively. The 2019/2020 budget was adopted in June 2019, based on an estimate of students that will be enrolled in September 2019. Approximately 75% of total General Fund revenue is from the foundation allowance. Under State law, the District cannot access additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per pupil funding is validated, State law requires the District to amend the budget if actual resources are not sufficient to fund original appropriations.

- Since the District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues.

- Another important factor is a decrease in federal funding to Title I and Title II programs which help the neediest students and provides training for the District staff.

Contacting the District's Financial Management

This financial report is intended to provide taxpayers, parents, and investors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, please contact the Business Office, 232 West Grand Street, Hastings, Michigan 49058.

BASIC FINANCIAL STATEMENTS

HASTINGS AREA SCHOOL SYSTEM
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 2,620,100
Investments	6,748,976
Receivables	
Accounts	502,464
Intergovernmental	3,917,936
Due from fiduciary funds	12,184
Inventories	18,856
Prepaids	15,691
Capital assets not being depreciated	40,109,509
Capital assets, net of accumulated depreciation	21,943,299
TOTAL ASSETS	75,889,015
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding, net of amortization	299,713
Related to pensions	13,769,224
Related to other postemployment benefits	2,104,106
TOTAL DEFERRED OUTFLOWS OF RESOURCES	16,173,043
LIABILITIES	
Accounts payable	1,001,024
Accrued salaries and related items	1,707,663
Accrued retirement	815,390
Accrued interest	327,780
Accrued liabilities	40,687
Unearned revenue	10,115
Short-term note payable	345,214
Noncurrent liabilities:	
Due within one year	3,228,939
Due in more than one year	49,652,162
Net pension liability	41,510,705
Net other postemployment benefits liability	10,855,403
TOTAL LIABILITIES	109,495,082
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	3,948,661
Related to other postemployment benefits	2,837,553
Related to state aid funding for pension benefits	1,512,321
TOTAL DEFERRED INFLOWS OF RESOURCES	8,298,535
NET POSITION	
Net investment in capital assets	14,618,279
Restricted for capital projects (sinking funds)	689,678
Restricted for debt service	1,077,922
Unrestricted	(42,117,438)
TOTAL NET POSITION	$ (25,731,559)

See notes to financial statements.

HASTINGS AREA SCHOOL SYSTEM
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

		Program Revenues			Governmental Activities
Functions/Programs	Expenses	Charges for Services	Operating Grants	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities					
Instruction	$ 17,612,833	$ 4,535	$ 4,507,383	$ -	$ (13,100,915)
Supporting services	9,583,232	257,045	65,214	-	(9,260,973)
Community service	880,670	601,972	4,196	-	(274,502)
Food service	1,059,751	356,371	706,635	-	3,255
Interest on long-term debt	2,188,621	-	-	146,465	(2,042,156)
Total governmental activities	$ 31,325,107	$ 1,219,923	$ 5,283,428	$ 146,465	(24,675,291)
General revenues					
Property taxes, levied for general purposes					3,201,288
Property taxes, levied for debt service					4,335,156
Property taxes, levied for sinking fund					587,660
Special education county allocation					347,130
State sources - unrestricted					17,252,696
Investment earnings					278,513
Other revenue					97,364
Total general revenues					26,099,807
CHANGE IN NET POSITION					1,424,516
NET POSITION, beginning of year					(27,156,075)
NET POSITION, end of year					$ (25,731,559)

See notes to financial statements.

HASTINGS AREA SCHOOL SYSTEM
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	General Fund	Debt Service	Building and Site Fund (Capital Project)	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 503,283	$ 1,405,702	$ -	$ 711,115	$ 2,620,100
Investments	1,420,994	-	5,327,982	-	6,748,976
Receivables					
Accounts	481,919	-	-	20,545	502,464
Intergovernmental	3,890,765	-	-	27,171	3,917,936
Due from other funds	1,600	-	-	-	1,600
Due from fiduciary funds	12,184	-	-	-	12,184
Inventories	9,694	-	-	9,162	18,856
Prepaids	15,691	-	-	-	15,691
TOTAL ASSETS	$ 6,336,130	$ 1,405,702	$ 5,327,982	$ 767,993	$ 13,837,807
LIABILITIES					
Accounts payable	$ 377,024	$ -	$ 595,632	$ 28,368	$ 1,001,024
Accrued salaries and related items	1,704,129	-	-	3,534	1,707,663
Accrued retirement	814,997	-	-	393	815,390
Accrued liabilities	40,687	-	-	-	40,687
Unearned revenue	-	-	-	10,115	10,115
Due to other funds	-	-	1,600	-	1,600
Short-term note payable	345,214	-	-	-	345,214
TOTAL LIABILITIES	3,282,051	-	597,232	42,410	3,921,693
FUND BALANCES					
Nonspendable					
Inventories	9,694	-	-	9,162	18,856
Prepaids	15,691	-	-	-	15,691
Restricted for					
Debt service	-	1,405,702	-	-	1,405,702
Capital projects	-	-	4,730,750	689,678	5,420,428
Community service	-	-	-	238	238
Food service	-	-	-	26,505	26,505
Committed					
Capital projects	525,000		-	-	525,000
Unassigned	2,503,694	-	-	-	2,503,694
TOTAL FUND BALANCES	3,054,079	1,405,702	4,730,750	725,583	9,916,114
TOTAL LIABILITIES AND FUND BALANCES	$ 6,336,130	$ 1,405,702	$ 5,327,982	$ 767,993	$ 13,837,807

See notes to financial statements.

HASTINGS AREA SCHOOL SYSTEM
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2019

Total governmental fund balances		$ 9,916,114
Amounts reported for governmental activities in the statement of net position are different because:		
Deferred outflows of resources - deferred charges on refunding, net of amortization		299,713
Deferred outflows of resources - related to pensions		13,769,224
Deferred inflows of resources - related to pensions		(3,948,661)
Deferred outflows of resources - related to other postemployment benefits		2,104,106
Deferred inflows of resources - related to other postemployment benefits		(2,837,553)
Deferred inflows of resources - related to state funding for pension benefits		(1,512,321)
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
The cost of the capital assets is	$ 98,322,213	
Accumulated depreciation is	(36,269,405)	
		62,052,808
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Long-term debt obligation		(52,464,992)
Compensated absences		(416,109)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid		(327,780)
Net pension liability		(41,510,705)
Net other postemployment benefits liability		(10,855,403)
Net position of governmental activities		$ (25,731,559)

See notes to financial statements.

HASTINGS AREA SCHOOL SYSTEM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019

	General Fund	Debt Service	Building and Site Fund (Capital Project)	Total Nonmajor Funds	Total Governmental Funds
REVENUES					
Local sources	$ 3,600,699	$ 4,485,423	$ 257,710	$ 1,576,000	$ 9,919,832
State sources	21,002,939	29,514	-	40,001	21,072,454
Federal sources	522,581	-	-	666,634	1,189,215
Incoming transfers and other	347,430	-	-	-	347,430
TOTAL REVENUES	25,473,649	4,514,937	257,710	2,282,635	32,528,931
EXPENDITURES					
Current					
Instruction	15,771,882	-	-	-	15,771,882
Supporting services	8,848,170	-	-	-	8,848,170
Community service	7,520	-	-	858,659	866,179
Food service	-	-	-	1,037,750	1,037,750
Capital outlay	-	-	8,717,069	487,242	9,204,311
Debt service	394,415	4,430,937	-	-	4,825,352
TOTAL EXPENDITURES	25,021,987	4,430,937	8,717,069	2,383,651	40,553,644
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	451,662	84,000	(8,459,359)	(101,016)	(8,024,713)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	227,500	227,500
Transfers out	(227,500)	-	-	-	(227,500)
TOTAL OTHER FINANCING SOURCES (USES)	(227,500)	-	-	227,500	-
NET CHANGE IN FUND BALANCES	224,162	84,000	(8,459,359)	126,484	(8,024,713)
FUND BALANCES					
Beginning of year	2,829,917	1,321,702	13,190,109	599,099	17,940,827
End of year	$ 3,054,079	$ 1,405,702	$ 4,730,750	$ 725,583	$ 9,916,114

See notes to financial statements.

HASTINGS AREA SCHOOL SYSTEM
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

Net change in fund balances total governmental funds	$ (8,024,713)
Amounts reported for governmental activities in the statement of activities differ because:	
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.	
Depreciation expense	(1,216,198)
Capital outlay	8,325,659
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid.	
Accrued interest payable, beginning of the year	341,583
Accrued interest payable, end of the year	(327,780)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:	
Payments on debt obligations	2,618,567
Amortization of bond premium	301,056
Amortization of deferred charge on refunding	(50,571)
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds.	
Accrued compensated absences, beginning of the year	404,280
Accrued compensated absences, end of the year	(416,109)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Pension related items	(1,458,613)
Other postemployment benefits related items	706,736
Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension benefits contributions subsequent to the measurement period.	
Pension benefit related items, beginning of year	1,732,940
Pension benefit related items, end of year	(1,512,321)
Change in net position of governmental activities	$ 1,424,516

See notes to financial statements.

HASTINGS AREA SCHOOL SYSTEM
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2019

	Agency Fund
ASSETS	
Cash and cash equivalents	$ 598,411
LIABILITIES	
Due to other funds	$ 12,184
Due to student and other groups	586,227
TOTAL LIABILITIES	$ 598,411

See notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by taxes, and intergovernmental revenues.

Reporting Entity

The Hastings Area School System (the "District") is governed by the Hastings Area School System Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category - governmental and fiduciary-- are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following *major governmental funds*:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *Building and Site Fund* accounts for the receipt of debt proceeds and the accounting for major capital projects related to the 2016 Building and Site Bonds.

The Building and Site Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code in the current and prior years.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation - Fund Financial Statements (continued)

The following is a summary of the cumulative revenue, other financing sources (uses), and expenditures for the Building and Site Fund activity:

Revenue and other financing sources	$ 45,826,574
Expenditures and other financing uses	$ 41,095,824

The above revenue figure includes the total 2016 bond proceeds and issuance premium of $44,744,228.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Nonmajor Funds

Special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and community center activities in the special revenue funds.

The *Capital Projects Sinking Fund* accounts for the receipt of property taxes levied for sinking fund and subsequent expenditures of those funds. The fund has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources.* The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting,* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end).

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the current year ended, the foundation allowance was based on pupil membership counts.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

All other revenue items are generally considered to be measurable and available only when cash is received by the District.

The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

Budgetary Information

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue funds. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

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

a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

b. Public hearings are conducted to obtain taxpayer comments.

c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.

d. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

e. The budget was amended during the year with supplemental appropriations, the last one approved prior to year end June 30, 2019. The District does not consider these amendments to be significant.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of 3 months or less from the date of acquisition.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Investments

Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Land is not depreciated. The other property, plant, and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

Capital Asset Classes	Lives
Buildings and building improvements	5 - 50 years
Buses and other vehicles	5 - 10 years
Furniture and equipment	3 - 20 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Defined Benefit Plans

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

Deferred Outflows

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 a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has three items that qualify for reporting in this category. They are the deferred charge on refunding, pension and other postemployment benefits related items reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred outflow is recognized for pension and other postemployment benefit related items. These amounts are expensed in the plan year in which they apply.

Deferred Inflows

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

Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Fund Balance Flow Assumptions

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

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

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

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues and Expenditures/Expenses (continued)

Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2019, the District levied the following amounts per $1,000 of assessed valuation:

Fund	Mills
General Fund	
Non-Principal Residence Exemption (PRE)	17.9262
Commercial Personal Property	5.9262
Debt Service Fund	
PRE, Non-PRE, Commercial Personal Property	7.3000
Sinking Fund	
PRE, Non-PRE, Commercial Personal Property	0.9898

Compensated Absences

The District's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee leaves, resignations or retirements. The liability for compensated absences includes salary and related benefits, where applicable.

Long-Term Obligations

In the government-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 using the straight-line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

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 issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 2 - DEPOSITS AND INVESTMENTS

As of June 30, 2019, the District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
MILAF+ MAX Class	$ 6,231,438	0.0027	AAAm	92.33%
MILAF+ Cash Mgmt Class	517,538	0.0027	AAAm	7.67%
Total fair value	$ 6,748,976			100.00%
Portfolio weighted average maturity		0.0027		

One day maturity equals approximately .0027 years.

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). This is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2019, the fair value of the District's investments is the same as the values of the pool shares.

MILAF Max Class and MILAF Cash Management Class funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. These funds require notification of redemptions prior to 14 days to avoid penalties and are not subject to the fair value disclosures.

Interest Rate Risk. In accordance with its investment policy, the District will minimize 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 mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit Risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of Credit Risk. The District will minimize 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.

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2019, $3,066,042 of the District's bank balance of $3,668,120 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. The above amounts include interest bearing accounts. The carrying value on the books for deposits at the end of the year was $3,218,511. The cash balances of the fiduciary fund are included in the above balances.

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk - Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, 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.

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

Fair Value Measurement. The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The District does not have any investments subject to the fair value measurement.

At June 30, 2019, the carrying amount is as follows:

Deposits - including fiduciary funds of $598,411	$ 3,218,511
Investments	6,748,976
	$ 9,967,487

The above amounts are reported in the financial statements as listed below. Certain interest-bearing deposits have been reported as investments.

Cash and cash equivalents - District-wide	$ 2,620,100
Cash and cash equivalents - agency fund	598,411
Investments - District-wide	6,748,976
	$ 9,967,487

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2019 consist of the following:

Governmental units	
State revenue	$ 3,830,301
Federal revenue	87,635
	$ 3,917,936

No allowance for doubtful accounts is considered necessary based on previous experience.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets not being depreciated				
Land	$ 53,410	$ -	$ -	$ 53,410
Construction in progress	31,797,228	8,258,871	-	40,056,099
Total capital assets not being depreciated	31,850,638	8,258,871	-	40,109,509
Capital assets being depreciated				
Buildings and building improvements	48,117,123	34,942	-	48,152,065
Buses and other vehicles	2,606,597	31,846	-	2,638,443
Furniture and equipment	7,422,196	-	-	7,422,196
Total capital assets being depreciated	58,145,916	66,788	-	58,212,704
Less accumulated depreciation				
Buildings and building improvements	(25,855,823)	(1,056,503)	-	(26,912,326)
Buses and other vehicles	(2,034,043)	(115,951)	-	(2,149,994)
Furniture and equipment	(7,163,341)	(43,744)	-	(7,207,085)
Total accumulated depreciation	(35,053,207)	(1,216,198)	-	(36,269,405)
Net capital assets being depreciated	23,092,709	(1,149,410)	-	21,943,299
Capital assets, net	$ 54,943,347	$ 7,109,461	$ -	$ 62,052,808

NOTE 4 - CAPITAL ASSETS (continued)

Depreciation for the fiscal year ended June 30, 2019 amounted to $1,216,198. The District allocated depreciation to the various activities as follows:

Instruction	$ 972,958
Support services	243,240
	$ 1,216,198

NOTE 5 - NOTE PAYABLE - STATE AID ANTICIPATION NOTE

At June 30, 2019, the District has issued a state aid anticipation note payable outstanding of $345,214. Proceeds of the note were used to fund school operations. The note is through the State of Michigan and has the following interest rate and maturity:

Note	Amount	Interest Rate	Maturity Date
2018A-1	$ 2,700,000	1.75%	August 20, 2019

The state aid note is secured by the full faith and credit of the District as well as pledged state aid. In an event of a default on the note, the state may impose a penalty interest rate and at the state's discretion, accelerate the repayment terms. Note 2018A-1 required payments to an irrevocable set-aside account of $2,354,786 at June 30, 2019. At year-end the balance of these payments are considered defeased debt and are not included in the year-end balance. Activity for the year ended June 30, 2019 is as follows:

Balance July 1, 2018	Additions	Payments	Balance June 30, 2019
$ 3,000,000	$ 2,700,000	$ 5,354,786	$ 345,214

NOTE 6 - LONG-TERM OBLIGATIONS

The following is a summary of long-term obligations for the District for the year ended June 30, 2019:

	General Obligation Bonds	Notes from Direct Borrowings and Direct Placements	Accumulated Compensated Absences	Total
Balance, July 1, 2018	$ 54,928,864	$ 455,751	$ 404,280	$ 55,788,895
Additions	-	-	218,944	218,944
Deletions	(2,780,766)	(138,857)	(207,115)	(3,126,738)
Balance, June 30, 2019	52,148,098	316,894	416,109	52,881,101
Due within one year	2,875,476	140,288	213,175	3,228,939
Due in more than one year	$ 49,272,622	$ 176,606	$ 202,934	$ 49,652,162

NOTE 6 - LONG-TERM OBLIGATIONS (continued)

Long-term obligations at June 30, 2019 is comprised of the following issues:

General Obligation Bonds	
2010 School Building and Site Bonds - $3,200,000,due in annual principal installments of $400,000 from May 1, 2019, through May 1, 2026, with interest ranging from 5.00% to 5.25%, payable semi-annually.	$ 2,800,000
2015 Refunding Bonds - $4,600,000, due in annual principal installments, ranging from $750,000 to $780,000 through May 1, 2022, with an interest rate of 2.00%, payable semi-annually.	2,265,000
2016 Refunding Bonds - $2,820,000, due in annual principal installments, ranging from $690,000 to $715,000 from May 1, 2023, through May 1, 2026, with an interest rate of 4.00%, payable semi-annually.	2,820,000
2016 Building and Site Bonds - $39,710,000, due in annual principal installments, ranging from $1,085,000 to $2,450,000 through May 1, 2040, with interest ranging from 3.25% to 5.00%, payable semi-annually.	37,850,000
2007 Energy Conservation Bonds - $2,079,765, due in semi-annual installments ranging from $29,108 to $134,462 through May 24, 2022, with an interest rate of 4.02%, payable semi-annually.	653,361
Add issuance premiums	5,759,737
Total general obligation bonds	52,148,098
Notes from Direct Borrowings and Direct Placements	
Buses Installment Loan, dated December 1, 2014 - $325,084, due in annual installments of $54,180 through December 22, 2019, with an interest rate of 1.97%, payable annually.	54,180
Buses Installment Loan, dated August 3, 2017 - $435,709, due in annual installments of $86,108 to $89,043 through November 21, 2021, with an interest rate of 1.69%, payable annually.	262,714
Total notes from direct borrowings and direct placements	316,894
Total general obligation bonds and notes from director borrowings and direct placements	52,464,992
Accumulated compensated absences	416,109
Total long-term obligations	$ 52,881,101

NOTE 6 - LONG-TERM OBLIGATIONS (continued)

The District's outstanding notes from direct borrowings and direct placements related to governmental activities of $316,894 contains provisions that in an event of default, either by (1) unable to make principal or interest payments (2) false or misrepresentation is made to the lender (3) become insolvent or make an assignment for the benefit of its creditors (4) if the lender at any time in good faith believes that the prospect of payment of any indebtedness is impaired. Upon the occurrence of any default event, the outstanding amounts, including accrued interest become immediately due and payable.

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2019, $10,715,000 of bonds outstanding are considered defeased.

The annual requirements to amortize long-term obligations outstanding exclusive of compensated absences payments as of June 30, 2019, are as follows:

Year Ending	General Obligation Bonds		Notes from Direct Borrowings and Direct Placements		Compensated	
June 30,	Principal	Interest	Principal	Interest	Absences	Total
2020	$ 2,574,420	$ 2,095,713	$ 140,288	$ 5,507	$ -	$ 4,815,928
2021	2,670,371	1,992,033	87,563	2,985	-	4,752,952
2022	2,648,570	1,882,298	89,043	1,504	-	4,621,415
2023	2,540,000	1,776,475	-	-	-	4,316,475
2024	2,600,000	1,657,825	-	-	-	4,257,825
2025-2029	10,230,000	6,886,925	-	-	-	17,116,925
2030-2034	9,400,000	4,876,250	-	-	-	14,276,250
2035-2039	11,275,000	2,343,750	-	-	-	13,618,750
2040	2,450,000	122,500	-	-	-	2,572,500
	46,388,361	23,633,769	316,894	9,996	-	70,349,020
Issuance premiums	5,759,737	-	-	-	-	5,759,737
Compensated absences	-	-	-	-	416,109	416,109
	$ 52,148,098	$ 23,633,769	$ 316,894	$ 9,996	$ 416,109	$ 76,524,866

Interest expense (all funds) for the year ended June 30, 2019 was approximately $2,202,000.

The 2010 School Building and Site Bonds gross interest payments due are reflected as part of the above annual requirements for the general obligation bonds. These bonds were issued under the Federal government's "Build America Bonds" program. It is the expectation of the District that through this program they will receive an interest subsidy credit payment from the Federal government each time interest payments are made on these bonds. The above schedule, in relation to the 2010 Series Bonds, include a cumulative gross amount of interest due of $578,000. Of this amount, there is an expected interest subsidy to be received over the life of the bonds in the cumulative amount of $547,680, and net interest owed by the District over the life of the bonds of $30,320.

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2019 are as follows:

Receivable Fund		Payable Fund	
General fund	$ 1,600	Capital projects funds	$ 1,600

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (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. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at www.michigan.gov/ors schools.

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 option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

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 of the System.

Benefits Provided - Overall

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the plans offered by MPSERS is as follows:

Plan Name	Plan Type	Plan Status
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined Contribution	Open

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Benefits Provided - Pension

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. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% - 7.0%.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable Defined Contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and 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 pension. Any changes to a member's pension 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 the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

An amount determined by the member's election of Option 1, 2, 3, or 4 described below:

Option 1 - Members voluntarily elected to increase their contributions to the pension fund as noted below and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic plan members: 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension Reform 2012 (continued)

Option 2 - Members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transient date (0% for Basic plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3 - Members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4 - Members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to the tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and final average compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus Plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

Final Average Compensation (FAC) - Average of highest 60 consecutive months for Basic Plan members and Pension Plus members (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected Option 4, in which case the FAC is calculated at the transition date.

Pension Reform of 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closes the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan is 6%. Further, the law provides that, under certain conditions, the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The law includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Benefits Provided - Other Postemployment Benefit (OPEB)

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 health care 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.

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 will be deposited into their 401(k) accounts.

Regular Retirement (no reduction factor for age)

Eligibility - A Basic plan member may retire at age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

Annual Amount - The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012.

Member Contributions

Depending on the plan selected, member contributions range from 0% - 7% for pension and 0% - 3% for other postemployment benefits. Plan members electing the Defined Contribution plan are not required to make additional contributions.

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Employer Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Postemployment Benefits (OPEB). 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.

For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of September 30, 2017 valuation will be amortized over a 21-year period beginning October 1, 2017 and ending September 30, 2038.

School districts' contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

	Pension	Other Postemployment Benefit
October 1, 2017 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%
October 1, 2018 - September 30, 2019	13.39% - 19.59%	7.57% - 7.93%

The District's pension contributions for the year ended June 30, 2019 were equal to the required contribution total. Pension contributions were approximately $3,670,000, with $3,583,000 specifically for the Defined Benefit Plan.

The District's OPEB contributions for the year ended June 30, 2019 were equal to the required contribution total. OPEB benefits were approximately $1,060,000, with $988,000 specifically for the Defined Benefit Plan.

These amounts, for both pension and OPEB benefit, include contributions funded from State revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (100% for pension and 0% for OPEB).

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Pension Liabilities

At June 30, 2019, the District reported a liability of $41,510,705 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2017 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2018 and 2017, the District's proportion was 0.13808% and 0.14109%.

MPSERS (Plan) Non-University Employers	September 30, 2018	September 30, 2017
Total Pension Liability	$ 79,863,694,444	$ 72,407,218,688
Plan Fiduciary Net Position	49,801,889,205	46,492,967,573
Net Pension Liability	30,061,805,239	25,914,251,115
Proportionate Share	0.13808%	0.14109%
Net Pension Liability for the District	$ 41,510,705	$ 36,563,482

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

For the year ended June 30, 2019, the District recognized pension expense of $5,262,386.

At June 30, 2019, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contributions and proportionate share of contributions	$ 463,066	$ 808,733
Differences between expected and actual experience	192,617	301,651
Changes of assumptions	9,613,845	-
Net differences between projected and actual plan investment earnings	-	2,838,277
Reporting unit's contributions subsequent to the measurement date	3,499,696	-
	$ 13,769,224	$ 3,948,661

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

$3,499,696, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

Year Ending September 30,	Amount
2019	$ 2,790,764
2020	1,883,656
2021	1,182,393
2022	464,054

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

OPEB Liabilities

At June 30, 2019, the District reported a liability of $10,855,403 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2017 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2018 and 2017, the District's proportion was 0.13656% and 0.14146%.

MPSERS (Plan) Non-University Employers	September 30, 2018	September 30, 2017
Total Other Postemployment Benefit Liability	$ 13,932,170,264	$ 13,920,945,991
Plan Fiduciary Net Position	5,983,218,473	5,065,474,948
Net Other Postemployment Benefit Liability	7,948,951,791	8,855,471,043
Proportionate Share	0.13656%	0.14146%
Net Other Postemployment Benefit Liability for the District	$ 10,855,403	$ 12,526,666

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

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

For the year ended June 30, 2019, the District recognized OPEB expense of $281,391.

At June 30, 2019, the Reporting Unit 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
Changes in proportion and differences between employer contributions and proportionate share of contributions	$ 3,427	$ 399,885
Differences between expected and actual experience	-	2,020,469
Changes of assumptions	1,149,593	-
Net differences between projected and actual plan investment earnings	-	417,199
Reporting unit's contributions subsequent to the measurement date	951,086	-
	$ 2,104,106	$ 2,837,553

$951,086, reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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

Year Ending September 30,	Amount
2019	$ (404,013)
2020	(404,013)
2021	(404,013)
2022	(319,384)
2023	(153,110)

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions

Investment Rate of Return for Pension - 7.05% a year, compounded annually net of investment and administrative expenses for the non-hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the hybrid group (Pension Plus Plan).

Investment Rate of Return for OPEB - 7.15% a year, compounded annually net of investment and administrative expenses.

Salary Increases - The rate of pay increase used for individual members is 2.75%.

Inflation - 3.0%.

Mortality assumptions:

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 - 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.

Experience Study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2017. Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the determination of the total pension and OPEB liability beginning with the September 30, 2017 valuation.

Long-Term Expected Rate of Return on Pension and Other Postemployment Benefit Plan Investments - The pension rate was 7.05% (7% Pension Plus Plan), and the other postemployment benefit rate was 7.15%, net of investment and administrative expenses 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.

Cost of Living Pension Adjustments - 3.0% annual non-compounded for MIP members.

Healthcare Cost Trend Rate for Other Postemployment Benefit - 7.5% for year one and graded to 3.0% in year twelve.

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

Additional Assumptions for Other Postemployment Benefit Only - applies to individuals hired before September 4, 2012:

Opt Out Assumption - 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.

Survivor Coverage - 80% of male retirees and 67% of female retirees are assumed to have coverage continuing after the retiree's death.

Coverage Election at Retirement - 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

The target asset allocation at September 30, 2018 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.7%
Private Equity Pools	18.0%	9.2%
International Equity Pools	16.0%	7.2%
Fixed Income Pools	10.5%	0.5%
Real Estate and Infrastructure Pools	10.0%	3.9%
Absolute Return Pools	15.5%	5.2%
Short-Term Investment Pools	2.0%	0.0%
	100.0%	

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

Pension Discount Rate - A single discount rate of 7.05% was used to measure the total pension liability (7.00% for the Pension Plus Plan and 6.00% for the Pension Plus 2 Plan). This discount rate was based on the long-term rate of return on pension plan investments of 7.05% (7.00% for the Pension Plus Plan and 6.00% for the Pension Plus 2 Plan). The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those 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.

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

OPEB Discount Rate - A single discount rate of 7.15% 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 7.15%. 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 school districts 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 Net Pension Liability to Changes in the Discount Rate - The following presents the Reporting Unit's proportionate share of the net pension liability calculated using a single discount rate of 7.05% (7.00% for the Pension Plus Plan and 6.00% for the Pension Plus 2 Plan), as well as what the Reporting Unit'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 than the current rate:

	Pension		
	1% Decrease	Discount Rate	1% Increase
District's proportionate share of the net pension liability	$ 54,500,350	$ 41,510,705	$ 30,718,422

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the Reporting Unit's proportionate share of the net OPEB liability calculated using a single discount rate of 7.15%, as well as what the Reporting Unit'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 than the current rate:

	Other Postemployment Benefit		
	1% Decrease	Discount Rate	1% Increase
District's proportionate share of the net other postemployment benefit liability	$ 13,031,691	$ 10,855,403	$ 9,024,880

Sensitivity to the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the Reporting Unit's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate of 7.5% (decreasing to 3.0%), as well as what the Reporting Unit's proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Other Postemployment Benefit		
	1% Trend Decrease	Healthcare Cost Trend Rates	1% Trend Increase
District's proportionate share of the net other postemployment benefit liability	$ 8,928,450	$ 10,855,403	$ 13,066,013

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension and OPEB Plan Fiduciary Net Position

Detailed information about the pension and OPEB's fiduciary net position is available in the separately issued Michigan Public School Employees' Retirement System 2018 Comprehensive Annual Financial Report.

Payable to the Pension and OPEB Plan - At year end the School District is current on all required pension and other postemployment benefit plan payments. Amounts accrued at year end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers, and the contributions due from State Revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL).

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of $500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2019 or any of the prior 3 years.

NOTE 10 - TRANSFERS

During the year the general fund transferred $227,200 to the community center special revenue fund to cover operational costs.

NOTE 11 - TAX ABATEMENTS

The District is required to disclose significant tax abatements as required by GASB Statement 77 (*Tax Abatements*).

The District receives reduced property tax revenues as a result of Payments in Lieu of Taxes (PILOT) granted by two townships and one City. PILOT programs apply to multiple unit housing for citizens of low income and the elderly. The property taxes abated for the general fund, debt service fund, and sinking fund by municipality under these programs are as follows:

Municipality	Taxes Abated
Hasting Charter Township	$ 25,559
Hope Township	3,424
City of Hastings	16,340
	$ 45,323

The taxes abated for the general fund operating millage is considered by the State of Michigan when determining the District's Section 22 funding of the State School Aid Act.

There are no abatements made by the District.

NOTE 12 - CONTINGENT LIABILITIES

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

NOTE 13 - SUBSEQUENT EVENTS

On August 20, 2019, the District issued a State Aid Note totaling $2,600,000 for the purpose of funding operating expenditures until the fiscal year 2020 State Aid payments begin. This short-term note will be paid off when the District accumulates sufficient State Aid revenues in the next fiscal year. Future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

Additionally, the District entered into an installment purchase agreement of $170,192 for fiscal year 2019-2020 to purchase two school buses. Future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

NOTE 14 - UPCOMING ACCOUNTING PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and will be effective for the District's 2020 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the District's 2021 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

NOTE 15 - CONTRACTUAL COMMITMENT

The District has entered into contracts related to various updates throughout the District that were not completed at June 30, 2019. The total contractual commitments outstanding at June 30, 2019 totaled $1,662,458. The District's Capital Projects fund balance, along with future anticipated revenues are expected to be sufficient to cover these commitments.

REQUIRED SUPPLEMENTARY INFORMATION

HASTINGS AREA SCHOOL SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Local sources	$ 3,422,958	$ 3,560,429	$ 3,600,699	$ 40,270
State sources	20,355,635	20,986,038	21,002,939	16,901
Federal sources	528,579	652,585	522,581	(130,004)
Incoming transfers and other	256,300	261,000	347,430	86,430
TOTAL REVENUES	24,563,472	25,460,052	25,473,649	13,597
EXPENDITURES				
Current				
Instruction				
Basic programs	11,686,004	12,023,115	11,926,160	96,955
Added needs	3,735,192	3,881,336	3,845,722	35,614
Total instruction	15,421,196	15,904,451	15,771,882	132,569
Supporting services				
Pupil	440,681	461,881	452,245	9,636
Instructional staff	774,048	630,895	574,798	56,097
General administration	322,321	358,170	357,906	264
School administration	1,835,077	1,874,086	1,874,034	52
Business	586,097	618,929	616,730	2,199
Operation/maintenance	2,713,176	2,926,461	2,968,260	(41,799)
Pupil transportation	919,375	1,014,227	1,014,197	30
Central services	547,040	520,918	518,052	2,866
Athletics and other	478,059	483,463	471,948	11,515
Total supporting services	8,615,874	8,889,030	8,848,170	40,860
Community services	6,820	14,463	7,520	6,943
Debt Service	394,387	394,417	394,415	2
TOTAL EXPENDITURES	24,438,277	25,202,361	25,021,987	180,374
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	125,195	257,691	451,662	193,971
OTHER FINANCING SOURCES (USES)				
Transfers out	(100,000)	(185,000)	(227,500)	(42,500)
NET CHANGE IN FUND BALANCE	$ 25,195	$ 72,691	224,162	$ 151,471
FUND BALANCE				
Beginning of year			2,829,917	
End of year			$ 3,054,079	

HASTINGS AREA SCHOOL SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH FISCAL YEAR)

	2018	2017	2016	2015	2014
District's proportion of net pension liability (%)	0.13808%	0.14109%	0.14193%	0.13817%	0.13440%
District's proportionate share of net pension liability	$ 41,510,705	$ 36,563,482	$ 35,410,950	$ 33,747,925	$ 29,603,552
District's covered employee payroll	$ 11,661,401	$ 11,746,588	$ 12,156,137	$ 11,559,272	$ 11,300,874
District's proportionate share of net pension liability as a percentage of its covered employee payroll	355.97%	311.27%	291.30%	291.96%	261.96%
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	62.36%	64.21%	63.27%	63.17%	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District presents information for those years for which information is available.

HASTINGS AREA SCHOOL SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)

	2019	2018	2017	2016	2015
Statutorily required contributions	$ 3,583,155	$ 3,825,737	$ 3,562,534	$ 3,074,986	$ 2,512,793
Contributions in relation to statutorily required contributions	3,583,155	3,825,737	3,562,534	3,074,986	2,512,793
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District's covered employee payroll	$ 11,960,154	$ 11,640,817	$ 11,736,465	$ 11,703,848	$ 11,417,916
Contributions as a percentage of covered employee payroll	29.96%	32.86%	30.35%	26.27%	22.01%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District presents information for those years for which information is available.

HASTINGS AREA SCHOOL SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH FISCAL YEAR)

	2018	2017
District's proportion of net OPEB liability (%)	0.13656%	0.14146%
District's proportionate share of net OPEB liability	$ 10,855,403	$ 12,526,666
District's covered employee payroll	$ 11,661,401	$ 11,746,588
District's proportionate share of net OPEB liability as a percentage of its covered employee payroll	93.09%	106.64%
Plan fiduciary net position as a percentage of total OPEB liability	42.95%	36.39%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District presents information for those years for which information is available.

HASTINGS AREA SCHOOL SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S OPEB CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)

	2019	2018
Statutorily required contributions	$ 988,127	$ 807,204
Contributions in relation to statutorily required contributions	988,127	807,204
Contribution deficiency (excess)	$ -	$ -
District's covered employee payroll	$ 11,960,154	$ 11,640,817
Contributions as a percentage of covered employee payroll	8.26%	6.93%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District presents information for those years for which information is available.

HASTINGS AREA SCHOOL SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2019

NOTE 1 - PENSION INFORMATION

Benefit changes - there were no changes of benefit terms in 2018.

Changes of assumptions - the assumption changes for 2018 were:

Wage inflation rate decreased to 2.75% from 3.50%.

Discount rate for MIP and Basic plans decreased to 7.05% from 7.50%.

Projected salary increases decreased to 2.75%-11.55%, including wage inflation at 2.75% from 3.50%-12.30%, including wage inflation of 3.50%.

Mortality assumptions were updated to the RP-2014 Male and Female Healthy Annuitant table from the RP-2000 Combined Healthy Life Mortality table.

NOTE 2 - OPEB INFORMATION

Benefit changes - there were no changes of benefit terms in 2018.

Changes of assumptions - the assumption changes for 2018 were:

Wage inflation rate decreased to 2.75% from 3.50%.

Discount rate decreased to 7.15% from 7.50%.

Projected salary increases decreased to 2.75%-11.55%, including wage inflation at 2.75% from 3.50%-12.30%, including wage inflation of 3.50%.

Healthcare cost trend rate decreased to 7.50% Year 1 graded to 3.00% Year 12 from 7.50% Year 1 graded to 3.50% Year 12.

Mortality assumptions were updated to the RP-2014 Male and Female Healthy Annuitant table from the RP-2000 Combined Healthy Life Mortality table.

ADDITIONAL SUPPLEMENTARY INFORMATION

HASTINGS AREA SCHOOL SYSTEM
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2019

	Special Revenue		Capital Project	
	Food Service	Community Center	Sinking Fund	Total
ASSETS				
Cash and cash equivalents	$ 6,225	$ 15,212	$ 689,678	$ 711,115
Receivables				
Accounts	12,695	7,850	-	20,545
Intergovernmental	21,001	6,170	-	27,171
Inventories	9,162	-	-	9,162
TOTAL ASSETS	$ 49,083	$ 29,232	$ 689,678	$ 767,993
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 1,641	$ 26,727	$ -	$ 28,368
Accrued salaries and related items	1,324	2,210	-	3,534
Accrued retirement	336	57	-	393
Unearned revenue	10,115	-	-	10,115
TOTAL LIABILITIES	13,416	28,994	-	42,410
FUND BALANCES				
Nonspendable				
Inventories	9,162	-	-	9,162
Restricted for				
Capital projects	-	-	689,678	689,678
Community service	-	238	-	238
Food service	26,505	-	-	26,505
TOTAL FUND BALANCES	35,667	238	689,678	725,583
TOTAL LIABILITIES AND FUND BALANCES	$ 49,083	$ 29,232	$ 689,678	$ 767,993

HASTINGS AREA SCHOOL SYSTEM
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2019

	Special Revenue		Capital Project	
	Food Service	Community Center	Sinking Fund	Total
REVENUES				
Local sources	$ 356,371	$ 631,035	$ 588,594	$ 1,576,000
State sources	40,001	-	-	40,001
Federal sources	666,634	-	-	666,634
TOTAL REVENUES	1,063,006	631,035	588,594	2,282,635
EXPENDITURES				
Current				
Community service	-	858,659	-	858,659
Food service	1,037,750	-	-	1,037,750
Capital outlay	-	-	487,242	487,242
TOTAL EXPENDITURES	1,037,750	858,659	487,242	2,383,651
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	25,256	(227,624)	101,352	(101,016)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	227,500	-	227,500
NET CHANGE IN FUND BALANCES	25,256	(124)	101,352	126,484
FUND BALANCES				
Beginning of year	10,411	362	588,326	599,099
End of year	$ 35,667	$ 238	$ 689,678	$ 725,583

HASTINGS AREA SCHOOL SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Approved Grant Award Amount	Accrued Revenue July 1, 2018	Prior Year Expenditures (Memo Only)	Current Year Expenditures	Current Year Cash Receipts	Accrued Revenue June 30, 2019
U.S. Department of Agriculture								
Passed through Michigan Department of Education								
Child Nutrition Cluster								
Non-Cash Assistance (Donated Foods)								
Entitlement Donated Foods	10.555		$ 77,896	$ -	$ -	$ 77,896	$ 77,896	$ -
Cash Assistance								
National School Lunch Program	10.555	181960	392,750	-	338,014	54,736	54,736	-
National School Lunch Program	10.555	191960	381,858	-	-	381,858	381,858	-
National School Lunch Program	10.555	181980	10,648	-	9,039	1,609	1,609	-
National School Lunch Program	10.555	191980	10,883	-	-	10,883	10,883	-
Total National School Lunch Program			796,139	-	347,053	449,086	449,086	-
Total CFDA #10.555			874,035	-	347,053	526,982	526,982	-
School Breakfast Program	10.553	181970	325,427	-	312,075	13,352	13,352	-
School Breakfast Program	10.553	191970	103,182	-	-	103,182	103,182	-
Total CFDA #10.553			428,609	-	312,075	116,534	116,534	-
Summer Food Service Program for Children	10.559	170900	14,456	6,170	14,456	-	6,170	-
Summer Food Service Program for Children	10.559	180900	20,923	-	-	20,923	14,211	6,712
Summer Food Service Program for Children	10.559	171900	1,513	647	1,513	-	647	-
Summer Food Service Program for Children	10.559	181900	2,195	-	-	2,195	1,491	704
Total CFDA #10.559			39,087	6,817	15,969	23,118	22,519	7,416
Cash Assistance Subtotal			1,263,835	6,817	675,097	588,738	588,139	7,416
Total U.S. Department of Agriculture and Total Child Nutrition Cluster			1,341,731	6,817	675,097	666,634	666,035	7,416

The accompanying notes are an integral part of this schedule.

HASTINGS AREA SCHOOL SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Approved Grant Award Amount	Accrued Revenue July 1, 2018	Prior Year Expenditures (Memo Only)	Current Year Expenditures	Current Year Cash Receipts	Accrued Revenue June 30, 2019
U.S. Department of Education								
Passed through Michigan Department of Education								
Title I Grants to Local Educational Agencies	84.010	181530-1718	$ 351,982	$ 18,967	$ 351,982	$ -	$ 18,967	$ -
Title I Grants to Local Educational Agencies	84.010	191530-1819	385,836	-	-	366,229	330,059	36,170
Total CFDA #84.010			737,818	18,967	351,982	366,229	349,026	36,170
Supporting Effective Instruction State Grants	84.367	190520-1819	118,552	-	-	63,259	50,516	12,743
Total CFDA #84.367			118,552	-	-	63,259	50,516	12,743
Student Support and Academic Enrichment Program	84.424	190750-1819	27,472	-	-	26,680	-	26,680
Total CFDA #84.424			27,472	-	-	26,680	-	26,680
Total passed through Michigan Department of Education			883,842	18,967	351,982	456,168	399,542	75,593
Passed through Barry Intermediate School District								
Career and Technical Education - Basic Grants to States	84.048	N/A	61,787	-	-	61,787	61,787	-
Total U.S. Department of Education			945,629	18,967	351,982	517,955	461,329	75,593
U.S. Department of Health and Human Services								
Passed through Barry Intermediate School District								
Medical Assistance Program	93.778	N/A	4,626	-	3,596	4,626	-	4,626
TOTAL FEDERAL AWARDS			$ 2,291,986	$ 25,784	$ 1,030,675	$ 1,189,215	$ 1,127,364	$ 87,635

The accompanying notes are an integral part of this schedule.

HASTINGS AREA SCHOOL SYSTEM
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Hastings Area School System under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Hastings Area School System, it is not intended to and does not present the financial position or changes in net position of Hastings Area School System.

Management has utilized the cash management system (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards. The District does not pass through federal funds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. Hastings Area School System has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 - RECONCILIATION WITH AUDITED FINANCIAL STATEMENT

Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	$ 522,581
Food service fund	666,634
	$ 1,189,215

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

To the Board of Education
Hastings Area School System

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hastings Area School System as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Hastings Area School System's basic financial statements and have issued our report thereon dated October 16, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Maner Costerisan PC

October 16, 2019

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

To the Board of Education
Hastings Area School System

Report on Compliance for Each Major Federal Program

We have audited Hastings Area School System's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Hastings Area School System's major federal programs for the year ended June 30, 2019. Hastings Area School System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our unmodified opinion on compliance for major federal programs. However, our audit does not provide a legal determination of Hastings Area School System's compliance.

Opinion on Each Major Federal Program

In our opinion, Hastings Area School System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of Hastings Area School System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hastings Area School System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hastings Area School System's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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

Maner Costerisan PC

October 16, 2019

HASTINGS AREA SCHOOL SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

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 that are not considered to be material weakness(es)?	____	Yes	X	None reported
Noncompliance material to financial statements noted?	____	Yes	X	No
Internal control over major programs:				
➢ Material weakness(es) identified:	____	Yes	X	No
➢ Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____	Yes	X	None reported
Type of auditor's report issued on compliance for major programs:	*Unmodified*			
Any audit findings disclosed that are required to be reported in accordance with Title 2 CFR Section 200.516(a)?	____	Yes	X	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553, 10.555, 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000			
Auditee qualified as low-risk auditee?	X	Yes	____	No

Section II - Financial Statement Findings

None noted

Section III - Federal Award Findings and Question Costs

None noted

HASTINGS AREA SCHOOL SYSTEM
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

FINDINGS/NONCOMPLIANCE

Significant Deficiencies and Material Weaknesses Related to Internal Controls Over the Basic Financial Statements

2018-001 CREDIT CARD SUPPORT - Considered a significant deficiency

Condition: During our testing of internal controls over credit card transactions, we noted that not all credit card charges had supporting documentation.

Resolution: This issue is evaluated each year and in the current year we did not find transactions that did not have appropriate documentation. We consider this issue resolved.

Findings related to Compliance with Requirements Applicable to the Basic Financial Statements

2018-002 UNFAVORABLE BUDGET VARIANCES - Immaterial noncompliance

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated in certain areas within the General Fund.

Resolution: This issue is evaluated each year and as it relates to the 2018 budget variances, we consider this issue resolved.

Findings Related to Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with Uniform Guidance.

2018-003 PLE RATE INCREASE - Immaterial noncompliance

Condition: The District was required to raise the weighted average pricing by $0.10 for the 2017-2018 school year to meet Paid Lunch Equity (PLE) requirements, but only increased pricing by $0.05 from the 2016-2017 school year.

Resolution: This issue was evaluated during the Single Audit testing for 2018-2019. We noted that the Board approved lunch and breakfast paid lunch increases of $0.10. We consider this issue resolved.

2018-004 ON-SITE REVIEWS - Immaterial noncompliance

Condition: The District did not perform enough required annual on-site reviews related to the School Breakfast Program prior to February 1.

Resolution: This issue was evaluated during Single Audit testing for 2018-2019. We noted that the District performed 8 on-site reviews for the 8 School Lunch Program buildings and 3 on-site reviews for the 7 School Breakfast Program buildings by February 1. This satisfies the applicable Michigan Department of Education compliance requirements. We consider this issue resolved.

Maner Costerisan
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October 16, 2019

To the Board of Education
Hastings Area School System

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hastings Area School System for the year ended June 30, 2019, and have issued our report thereon dated October 16, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in our letter dated May 14, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Hastings Area School System are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2019. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 financial statements of the governmental activities were:

Management's calculation of depreciation expense for the current period is based on an estimate of the useful lives of the capital assets.

Management's calculation of the current and noncurrent compensated absence liability amounts was based on an estimate employees' use of compensated absences.

Management's calculation related to the historical termination vesting percentages for compensated absences payments is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five years.

> The calculation of the net pension liability is based on an actuarial study which utilized certain actuarial assumptions.
>
> The calculation of the net other post-employment benefits (OPEB) liability is based on an actuarial study which utilized certain actuarial assumptions.

The most sensitive estimate affecting the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information was:

> Investments (cash equivalents) are carried at amortized cost, which approximates fair value, which is defined as the amount that the District could reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller.

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

The financial statement disclosures are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

We did not identify any sensitive disclosures.

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 misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Material misstatements were not detected as a result of our audit procedures.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 16, 2019.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this other 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 other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

A separate management letter was not issued.

Restriction on Use

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

Very truly yours,

Maner Costerisan PC