

CASS CITY PUBLIC SCHOOLS
Cass City, Michigan

Report on Financial Statements
(with required supplementary and
additional supplementary information)
Year Ended June 30, 2019

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ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants

Thomas B. Doran, CPA
Valerie J. Hartel, CPA
Jamie L. Peasley, CPA
.....
Jerry J. Bernhardt, CPA
Timothy D. Franzel

David A. Ondrajka, CPA
Laura J. Steffen, CPA
Brent A. Shaw, CPA
Angela M. Burnette, CPA
Chelsie M. Peruski, CPA
Kendra K. Bednarski, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Cass City Public Schools
Cass City, Michigan 48726

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 Cass City Public Schools, as of and for the year ended June 30, 2019, and the related notes to financial statements, which collectively comprise the Cass City Public Schools' 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*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Cass City Public Schools 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 Cass City Public Schools' basic financial statements. The additional supplementary information, as listed 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, are 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2019, on our consideration of the Cass City Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Cass City Public Schools' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cass City Public Schools' internal control over financial reporting and compliance.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CARO, MICHIGAN

October 24, 2019

Cass City Public Schools

Management's Discussion and Analysis

Cass City School District, a K-12 school district located in Tuscola, Sanilac and Huron Counties, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Cass City School District administration's discussion and analysis of the financial results for the fiscal years ended June 30, 2018 and June 30, 2019.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

Fund Financial Statements

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

The fund statements are formatted to comply with the legal 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. These include Special Revenue Funds, Debt Service Funds and Capital Projects Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded 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.

Government-wide Financial Statements

The government-wide financial statements are calculated using full accrual accounting and more closely represent those presented by business and industry. All of the District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt of the District.

Cass City Public Schools
Management's Discussion and Analysis

Summary of Net Position

The following schedule summarizes the net position at fiscal years ended:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>Difference</u>
Assets			
Current and other assets	\$ 5,995,672	\$ 4,277,701	\$ 1,717,971
Capital assets	<u>8,588,960</u>	<u>8,430,586</u>	<u>158,374</u>
Total assets	<u>14,584,632</u>	<u>12,708,287</u>	<u>1,876,345</u>
Deferred Outflows of Resources			
Deferred charge on refunding, net of amortization	16,326	24,490	(8,164)
Related to other postemployment benefits	770,192	301,199	468,993
Related to pensions	<u>5,405,530</u>	<u>3,382,828</u>	<u>2,022,702</u>
Total deferred outflows of resources	<u>6,192,048</u>	<u>3,708,517</u>	<u>2,483,531</u>
Liabilities			
Other liabilities	1,486,655	1,972,000	(485,345)
Long-term liabilities	<u>24,855,819</u>	<u>21,906,517</u>	<u>2,949,302</u>
Total liabilities	<u>26,342,474</u>	<u>23,878,517</u>	<u>2,463,957</u>
Deferred Inflows of Resources			
Related to pensions	1,728,736	1,041,465	687,271
Related to other postemployment benefits	1,138,412	167,801	970,611
Related to state aid funding for pension and other postemployment benefits	<u>590,522</u>	<u>563,711</u>	<u>26,811</u>
Total deferred inflows of resources	<u>3,457,670</u>	<u>1,772,977</u>	<u>1,684,693</u>
Net Position			
Net investment in capital assets	6,655,250	6,216,860	438,390
Restricted for debt service	405,437	356,340	49,097
Unrestricted	<u>(16,084,151)</u>	<u>(15,807,890)</u>	<u>(276,261)</u>
Total net position	<u>\$ (9,023,464)</u>	<u>\$ (9,234,690)</u>	<u>\$ 211,226</u>

Analysis of Financial Position

During the fiscal year ended June 30, 2019, the District's net position increased by \$211,226. A few of the more significant factors affecting net position during the year are discussed below.

1. Depreciation Expense

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

Cass City Public Schools
Management's Discussion and Analysis

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. The depreciation expense for the fiscal years ended June 30, 2019 and June 30, 2018 was \$371,537 and \$389,078.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2019, \$529,911 were capitalized and recorded as assets to the District. \$34,096 expenditures were capitalized for the year ended June 30, 2018. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets, disposal of assets, and the current year's depreciation is an increase to capital assets in the amount of \$158,374 for the fiscal year ended June 30, 2019.

Results of Operations

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

	<u>June 30, 2019</u>		<u>June 30, 2018</u>		<u>Difference</u>
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	
General Revenues					
Property taxes	\$ 1,698,910	14.79%	\$ 1,671,170	14.69%	\$ 27,740
Investment earnings	59,014	0.51%	22,385	0.20%	36,629
State sources	6,856,044	59.68%	6,642,717	58.39%	213,327
Transfers from other districts	64,529	0.56%	43,786	0.38%	20,743
Other	73,319	0.64%	147,112	1.29%	(73,793)
Total general revenues	<u>8,751,816</u>	<u>76.18%</u>	<u>8,527,170</u>	<u>74.95%</u>	<u>224,646</u>
Program Revenues					
Charges for services	433,682	3.78%	415,997	3.66%	17,685
Operating grants	2,302,523	20.04%	2,432,829	21.39%	(130,306)
Total revenues	<u>11,488,021</u>	<u>100.00%</u>	<u>11,375,996</u>	<u>100.00%</u>	<u>112,025</u>
Expenses					
Instruction	6,537,515	57.97%	6,474,946	59.91%	62,569
Support services	3,497,773	31.02%	3,080,091	28.50%	417,682
Community services	181,628	1.61%	165,628	1.53%	16,000
Capital outlay	64,874	0.58%	26,200	0.24%	38,674
Food services	518,105	4.59%	548,431	5.07%	(30,326)
Interest on long-term debt	105,363	0.94%	124,168	1.15%	(18,805)
Unallocated depreciation expense	371,537	3.29%	389,078	3.60%	(17,541)
	<u>11,276,795</u>	<u>100.00%</u>	<u>10,808,542</u>	<u>100.00%</u>	<u>468,253</u>
Change in net position	<u>\$ 211,226</u>		<u>\$ 567,454</u>		<u>\$ (356,228)</u>

Cass City Public Schools
Management's Discussion and Analysis

Analysis of Significant Revenues and Expenditures

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levies 17.9766 mills of property taxes for operations on non-homestead properties. According to Michigan law, the taxable levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2018-2019 fiscal year, the district levied \$896,878 non-homestead property taxes. This represented an increase of 3.37% from the prior year.

The following table summarizes the non-homestead property tax levies for operations for the past five years:

Fiscal Year	Non-homestead Tax Levy	% Increase (Decrease) from prior year
2018 - 2019	896,878	3.37%
2017 - 2018	867,636	4.45%
2016 - 2017	830,662	1.58%
2015 - 2016	787,400	2.09%
2014 - 2015	771,277	0.88%

2. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 90% of the 2018 Fall count and 10% of the 2018 Spring count. For the 2018-2019 fiscal year, the District's foundation allowance was \$7,871 per student FTE, which was \$240 more than the amount received 2017-2018 fiscal year.

3. Student Enrollment

The following schedule compares actual blended student enrollment for the past five fiscal years:

Fiscal Year	Actual Blended Student FTE
2018 - 2019	981
2017 - 2018	981
2016 - 2017	983
2015 - 2016	1,009
2014 - 2015	1,049

Cass City Public Schools
Management's Discussion and Analysis

4. Operating Grants

The District funds a significant portion of its operations with appropriations. For the fiscal year ended June 30, 2019, federal, state and other grants accounted for \$2,302,523. This represents an decrease of \$130,306 over the total grant sources received for the 2017-2018 fiscal year.

5. Interest Earnings

The District received interest on its investments in the amount of \$59,014 for the fiscal year ended June 30, 2019. Interest revenues increased compared to the prior fiscal year by \$36,629.

6. Comparative Expenditures

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

<u>Expenditures</u>	<u>2018-2019 Fiscal Year</u>	<u>2017-2018 Fiscal Year</u>	<u>Increase (Decrease)</u>
Instruction	\$ 6,335,740	\$ 6,446,035	\$ (110,295)
Supporting services	3,391,239	3,097,500	293,739
Community service activities	181,628	165,628	16,000
Capital outlay	518,511	26,200	492,311
Food service activities	518,105	548,431	(30,326)
Debt service	<u>924,690</u>	<u>816,276</u>	<u>108,414</u>
Total Expenditures	<u>\$ 11,869,913</u>	<u>\$ 11,100,070</u>	<u>\$ 769,843</u>

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1st. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30th.

For the 2018-2019 fiscal year, the district amended the general fund budget several times with the Board adopting the final changes in June 2019. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

Cass City Public Schools
Management's Discussion and Analysis

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (negative)	% Variance
Total revenues	\$9,887,735	\$10,155,623	\$10,176,270	\$ 20,647	0.20%
Expenditures:					
Instruction	\$6,465,092	\$ 6,334,444	\$ 6,335,740	\$ (1,296)	-0.02%
Supporting services	3,099,032	3,438,313	3,391,239	47,074	1.37%
Community services	169,379	180,650	181,628	(978)	-0.54%
Capital outlay	-	19,396	19,396	-	0.00%
Principal payments	142,418	140,200	138,905	1,295	0.92%
Interest payment	11,682	11,500	12,579	(1,079)	-9.38%
Total expenditures	\$9,887,603	\$10,124,503	\$10,079,487	\$ 45,016	0.44%
Other Financing sources (uses):					
Sale of school property	\$ -	\$ 500	\$ 751	\$ 251	50.20%
Total other financings sources (uses)	\$ -	\$ 500	\$ 751	\$ 251	50.20%

Capital Asset and Debt Administration

Capital Assets

By the end of the 2018-2019 fiscal year, the district had invested \$18,503,338 in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents a net increase of \$529,911 over the prior fiscal year. Depreciation expense for the year amounted to \$371,537 bringing the accumulation to \$9,914,378 as of June 30, 2019.

Long-term Debt

At June 30, 2019, the District had \$4,163,240 in long-term debt outstanding, of which \$3,650,290 was bonded debt. During the fiscal year, the capital projects from the 2018 bond vote began. Overall, long-term debt increased by \$1,768,570 over the amount outstanding at the close of the prior fiscal year.

In May of 2018, voters of Tuscola, Huron, and Sanilac Counties approved Cass City Public Schools to issue \$8,680,000 in more than one bond series for the purpose of "remodeling, equipping and re-equipping and furnishing and refurbishing school buildings; acquiring, installing, equipping and re-equipping school buildings for instructional technology; purchasing school buses; and developing, improving and equipping playgrounds, athletic fields and sites" per the formal bond language. The first issuance of bonds designated School Building and Site Bonds were used to fund a new HVAC system at the high school and new security improvements were made at both buildings.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several areas that could have a major impact on the 2019-2020 fiscal year, and the near future.

Cass City Public Schools

Management's Discussion and Analysis

The State of Michigan has not yet approved the state budget and categorical funding is still to be determined. A student foundation allowance increase for 2019-2020 is proposed with a reduction in categorical funding, specifically for rural districts. There are still expenses to the district that are beyond the control of the board of education and administration. Pension and health care costs continue to increase, as well as many other operating expenses. Compliance with the provisions of the Affordable Care Act continue to present challenges in securing part-time supporting roles.

Health insurance costs continue to rise. The district plans to continue to explore alternate insurance packages to give the district the most cost effective plan. School employees will no longer reimburse the school district for amounts exceeding the Health Care Cap in 2020 as set by the state.

Student enrollment projections continue to indicate a long-term decline for Tuscola County which is down around 200 students overall. 2019-2020 fall numbers look to hold steady for Cass City Public Schools while other schools are seeing large decreases in enrollment. The state continues to report teacher shortages as well as shortages in filling subbing roles.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Chief Financial Officer, Cass City Public Schools, 4868 N. Seeger St, Cass City, Michigan, 48726 and telephone number (989) 912-1846.

BASIC FINANCIAL STATEMENTS

CASS CITY PUBLIC SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2019

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and cash equivalents	\$ 1,976,245
Receivables:	
Accounts receivable	9,724
Intergovernmental receivable	1,603,869
Prepaid expense	102,552
Restricted cash - capital projects fund	2,303,282
Capital assets not being depreciated	633,891
Capital assets, net of accumulated depreciation	7,955,069
TOTAL ASSETS	14,584,632
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding, net of amortization	16,326
Related to other postemployment benefits	770,192
Related to pensions	5,405,530
TOTAL DEFERRED OUTFLOWS OF RESOURCES	6,192,048
LIABILITIES	
Accounts payable	441,059
Accrued salaries & wages	532,151
Accrued payroll taxes	36,497
Accrued interest	23,300
Due to other governmental units	107,096
Accrued benefits	74,584
Accrued retirement	129,111
Notes payable	142,857
Noncurrent liabilities:	
Due within one year	802,704
Due in more than one year	3,360,536
Net other postemployment benefits liability	4,265,194
Net pension liability	16,427,385
TOTAL LIABILITIES	26,342,474
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	1,728,736
Related to other postemployment benefits	1,138,412
Related to state aid funding for pension	590,522
TOTAL DEFERRED INFLOWS OF RESOURCES	3,457,670
NET POSITION	
Net investment in capital assets	6,655,250
Restricted for debt service	405,437
Unrestricted	(16,084,151)
TOTAL NET POSITION	\$ (9,023,464)

See notes to financial statements.

CASS CITY PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

Functions/Programs	Expenses	PROGRAM REVENUES		GOVERNMENTAL
		Charges for Services	Operating Grants	ACTIVITIES
				Net (Expense) Revenue and Changes in Net Position
Governmental activities:				
Instruction	\$ 6,537,515	\$ 4,768	\$ 1,363,305	\$ (5,169,442)
Support services	3,497,773	68,163	584,273	(2,845,337)
Community services	181,628	183,152		1,524
Capital outlay	19,395			(19,395)
Food services	518,105	177,599	354,945	14,439
Interest and fees on long-term debt	150,842			(150,842)
Unallocated depreciation	371,537			(371,537)
Total governmental activities	\$ 11,276,795	\$ 433,682	\$ 2,302,523	(8,540,590)
General revenues:				
Property taxes, levied for general purposes				912,300
Property taxes, levied for debt service				786,610
State sources - unrestricted				6,856,044
Investment revenue				59,014
Transfer from other districts				64,529
Miscellaneous				73,319
Total general revenue				8,751,816
Change in net position				211,226
Net position, beginning of year				(9,234,690)
Net position, end of year				\$ (9,023,464)

See notes to financial statements.

CASS CITY PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	GENERAL FUND	FOOD SERVICE	2017 REFUNDING DEBT SERVICE	2018 DEBT SERVICE	2018 CAPITAL PROJECTS SERIES I	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>						
Cash and cash equivalents	\$ 1,423,729	\$ 142,174	\$ 227,796	\$ 182,546	\$ -	\$ 1,976,245
Receivables:						
Accounts receivable	1,978	-	4,828	2,918	-	9,724
Intergovernmental receivable	1,598,594	5,275	-	-	-	1,603,869
Prepaid expense	97,867	4,685	-	-	-	102,552
Due from other funds	3,310	-	8,367	-	-	11,677
Restricted cash - capital projects fund	-	-	-	-	2,303,282	2,303,282
TOTAL ASSETS	<u>\$ 3,125,478</u>	<u>\$ 152,134</u>	<u>\$ 240,991</u>	<u>\$ 185,464</u>	<u>\$ 2,303,282</u>	<u>\$ 6,007,349</u>
<u>LIABILITIES AND FUND BALANCES</u>						
LIABILITIES:						
Accounts payable	\$ 165,447	\$ 12,405	\$ -	\$ -	\$ 263,207	\$ 441,059
Accrued interest	2,500	-	-	-	-	2,500
Accrued salaries & wages	529,546	2,605	-	-	-	532,151
Accrued payroll taxes	36,497	-	-	-	-	36,497
Accrued benefits	73,391	1,193	-	-	-	74,584
Accrued retirement	129,111	-	-	-	-	129,111
Due to other funds	8,149	3,310	-	218	-	11,677
Due to other governmental units	107,096	-	-	-	-	107,096
Notes payable	142,857	-	-	-	-	142,857
TOTAL LIABILITIES	<u>1,194,594</u>	<u>19,513</u>	<u>-</u>	<u>218</u>	<u>263,207</u>	<u>1,477,532</u>
FUND BALANCES:						
Nonspendable for prepaids	97,867	4,685	-	-	-	102,552
Restricted for capital projects	-	-	-	-	2,040,075	2,040,075
Restricted for debt service	-	-	240,991	185,246	-	426,237
Restricted for food service	-	127,936	-	-	-	127,936
Unassigned	1,833,017	-	-	-	-	1,833,017
TOTAL FUND BALANCES	<u>1,930,884</u>	<u>132,621</u>	<u>240,991</u>	<u>185,246</u>	<u>2,040,075</u>	<u>4,529,817</u>
TOTAL LIABILITIES & FUND BALANCES	<u>\$ 3,125,478</u>	<u>\$ 152,134</u>	<u>\$ 240,991</u>	<u>\$ 185,464</u>	<u>\$ 2,303,282</u>	<u>\$ 6,007,349</u>

See notes to financial statements.

CASS CITY PUBLIC SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2019

Total Fund Balances - Governmental Funds \$ 4,529,817

Amounts reported for governmental activities in the statement of net position are different because:

Deferred outflows of resources-charges on refunding, net of amortization	16,326
Deferred outflows of resources-related to pensions	5,405,530
Deferred outflows of resources-related to other postemployment benefits	770,192
Deferred inflows of resources-related to pensions	(1,728,736)
Deferred inflows of resources-related to other postemployment benefits	(1,138,412)
Deferred inflows of resources-related to state pension funding	(590,522)

Capital assets used in governmental activities are not financial resources and are not reported in the funds

Cost of capital assets	18,503,338
Accumulated depreciation	(9,914,378)

Long term liabilities are not due and payable in the current period and are not reported in the funds

Long term debt obligations	(3,894,821)
Bond premium	(124,199)
Bond discount	28,909
Compensated absences	(173,129)
Accrued interest is not included as a liability in governmental funds; it is recorded when paid	(20,800)
Net other postemployment benefit liability	(4,265,194)
Net pension liability	<u>(16,427,385)</u>

Net Position of Governmental Activities **\$ (9,023,464)**

CASS CITY PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019

	<u>GENERAL FUND</u>	<u>FOOD SERVICE</u>	<u>2017 REFUNDING DEBT SERVICE</u>	<u>2018 DEBT SERVICE</u>	<u>2018 CAPITAL PROJECTS SERIES I</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES:						
Local sources						
Property Tax	\$ 912,300	\$ -	\$ 490,809	\$295,801	\$ -	\$ 1,698,910
Interest income	40,357	2,171	3,201	713	12,572	59,014
Food sales	-	177,156	-	-	-	177,156
Other	319,536	443	-	-	-	319,979
Total local sources	<u>1,272,193</u>	<u>179,770</u>	<u>494,010</u>	<u>296,514</u>	<u>12,572</u>	<u>2,255,059</u>
State sources	8,164,843	20,532	-	-	-	8,185,375
Federal sources	665,590	334,413	-	-	-	1,000,003
Other transactions:						
Insurance reimbursements	9,115	-	-	-	-	9,115
Transfers from other districts	64,529	-	-	-	-	64,529
TOTAL REVENUES	<u>10,176,270</u>	<u>534,715</u>	<u>494,010</u>	<u>296,514</u>	<u>12,572</u>	<u>11,514,081</u>
EXPENDITURES:						
Instruction	6,335,740	-	-	-	-	6,335,740
Supporting services	3,391,239	-	-	-	-	3,391,239
Community services	181,628	-	-	-	-	181,628
Capital outlay	19,396	-	-	-	499,115	518,511
Food services	-	518,105	-	-	-	518,105
Debt service:						
Principal retirement	138,905	-	590,000	60,000	-	788,905
Interest	12,579	-	26,434	51,243	-	90,256
Bond issuance and other costs	-	-	25	25	45,479	45,529
TOTAL EXPENDITURES	<u>10,079,487</u>	<u>518,105</u>	<u>616,459</u>	<u>111,268</u>	<u>544,594</u>	<u>11,869,913</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>96,783</u>	<u>16,610</u>	<u>(122,449)</u>	<u>185,246</u>	<u>(532,022)</u>	<u>(355,832)</u>
OTHER FINANCING SOURCES (USES):						
Sale of school property	751	-	-	-	-	751
Proceeds from bond issuance	-	-	-	-	2,470,000	2,470,000
Premium on bond issued	-	-	-	-	133,071	133,071
Discount on bond issued	-	-	-	-	(30,974)	(30,974)
TOTAL OTHER FINANCING SOURCES (USES)	<u>751</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,572,097</u>	<u>2,572,848</u>
NET CHANGE IN FUND BALANCES	<u>97,534</u>	<u>16,610</u>	<u>(122,449)</u>	<u>185,246</u>	<u>2,040,075</u>	<u>2,217,016</u>
FUND BALANCES - BEGINNING OF YEAR	<u>1,833,350</u>	<u>116,011</u>	<u>363,440</u>	<u>-</u>	<u>-</u>	<u>2,312,801</u>
FUND BALANCES - END OF YEAR	<u>\$ 1,930,884</u>	<u>\$ 132,621</u>	<u>\$ 240,991</u>	<u>\$ 185,246</u>	<u>\$ 2,040,075</u>	<u>\$ 4,529,817</u>

See notes to financial statements.

CASS CITY PUBLIC SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

Net change in fund balances--governmental funds \$ 2,217,016

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation:

Depreciation expense	(371,537)
Capital outlay	529,911

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 at the beginning of the year	7,100
Accrued interest payable at the end of the year	(20,800)

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 transactions, however, has any effect on the 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 are as follows:

Proceeds from bond issuance	(2,470,000)
Principal payments	788,905
Amortization of deferred amount on refunding	(8,164)
Bond discount	30,974
Amortization of bond discount	(2,065)
Bond premium	(133,071)
Amortization of bond premium	8,872

Accrued compensated absences are recorded in the statement of activities when incurred, but it is not recorded in the governmental funds until it is paid.

Accrued compensated absences at the beginning of the year	180,944
Accrued compensated absences at the end of the year	(173,129)

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.

Other postemployment benefit related items	196,645
Pension related items	(543,564)

Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension contributions subsequent to the measurement period.

Change in state aid funding for pension	(26,811)
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Change in net position of governmental activities **\$ 211,226**

CASS CITY PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2019

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 163,129
TOTAL ASSETS	<u>\$ 163,129</u>
<u>LIABILITIES</u>	
Due to student organizations	\$ 163,129
TOTAL LIABILITIES	<u>\$ 163,129</u>

See notes to financial statements.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

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 statements. *Governmental activities* normally are supported by taxes, and intergovernmental revenues.

REPORTING ENTITY:

Cass City Public Schools (the "District") is governed by the Cass City 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 government sources and must comply with all 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 governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from 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 – government 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 *Special Revenue Fund* accounts 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 activities in the special revenue fund.

The 2017 refunding debt service and 2018 debt service funds accounts for the resources accumulated and payments made for principal and interest on the long-term general obligation debt.

The 2018 capital projects fund accounts for the debt proceeds received in the current year and the acquisition of fixed assets or construction of major capital projects.

The 2018 capital projects 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.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

Beginning with the year of bond issuance, the District has reported the annual constructions activity in the 2018 capital projects fund. The projects for which the 2018 bonds were issued were ongoing as of June 30, 2019 and the cumulative revenues and expenditures recognized for the construction period were as follows:

	2018 Capital Projects Fund, Series I
Revenue and other financing sources	<u>\$ 2,584,669</u>
Expenditures and outgoing transfers	<u>\$ 544,594</u>

Revenue and other financing sources include the net bond proceeds of \$2,572,097.

OTHER NON-MAJOR FUNDS:

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 the 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.

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 at 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 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 lease are reported as other financing sources.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

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 the 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 Exception (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 30th is reported as an intergovernmental receivable.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended 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.

All other revenue items are generally considered to be measureable 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 fund. Capital projects funds are appropriated on a project-length basis. 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:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (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, or in excess of the amount appropriated. Violations, if any, in the general fund and food service fund are noted in the required supplementary information section.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

4. 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.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to the year ended June 30th. The District does not consider these amendments to be significant.

ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE:

1. 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 three months or less from the date of acquisition.

2. Investments

Certain investments are valued at fair value and 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.

3. 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 government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. 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 valued at their estimated acquisition value at the date of donation.

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

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

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

Buildings and additions	20 - 50 years
Land improvements	10 - 30 years
Machinery and equipment	5 - 20 years
Transportation equipment	5 - 15 years

5. Deferred outflows/inflows of resources

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 and 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 qualifies for reporting in this category. The first is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension benefit contributions subsequent to the measurement period. The second and third items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary.

6. Defined benefit plan

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 (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

7. 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.

8. 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.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

9. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of the 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 balances 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:

1. 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 for 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.

2. 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 date is 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:

<u>FUND</u>	<u>MILLS</u>
General Fund:	
Non-Principle Residence Exemption (PRE)	17.9766
Commercial Personal Property	5.9766
Debt Service Fund:	
PRE, Non-PRE, Commercial Personal Property	3.00

3. 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 resignations or retirements. The liability for compensated absences includes salary and related benefits, where applicable.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

4. 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 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 – DEPOSIT AND INVESTMENTS:

As of June 30, 2019, the District had no investments as defined by generally accepted accounting principles.

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). As of June 30, the District did not have investments in commercial paper and corporate bonds.

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, \$4,099,505 of the District's bank balance of \$4,476,836 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying value on the books for deposits at the end of the year was \$4,442,656.

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.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

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.

The above amounts as previously reported in Note 2:

Deposits – including fiduciary funds of \$163,129	<u>\$4,442,656</u>
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The above amounts are reported in the financial statements as follows:

Cash - District wide	\$ 1,976,245
Restricted Cash - Capital Projects Fund	2,303,282
Cash - Fiduciary Funds	<u>163,129</u>
	<u>\$ 4,442,656</u>

NOTE 3 – INTERGOVERNMENTAL RECEIVABLES:

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

Governmental units:	
State aid - State of Michigan	\$ 1,453,493
Federal revenue	90,879
Other	<u>59,497</u>
Total	<u>\$ 1,603,869</u>

Amounts due from other governmental units include amounts due from federal, state, and local sources for various projects and programs.

No allowance for doubtful accounts is considered necessary.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

NOTE 4 – CAPITAL ASSETS:

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

<u>Governmental Activities</u>	<u>BALANCE</u> <u>July 1, 2018</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>June 30, 2019</u>
Assets not being depreciated				
Land	\$ 134,775	\$ -	\$ -	\$ 134,775
Construction in Progress	-	499,116	-	499,116
Subtotal	134,775	499,116	-	633,891
Capital assets being depreciated:				
Land improvements	262,267			262,267
Building and additions	15,202,978			15,202,978
Machinery and equipment	1,608,906	30,795		1,639,701
Transportation equipment	764,501			764,501
Subtotal	17,838,652	30,795	-	17,869,447
Accumulated depreciation:				
Land improvements	(172,755)	(14,647)		(187,402)
Building and additions	(7,420,735)	(272,180)		(7,692,915)
Machinery and equipment	(1,381,448)	(33,920)		(1,415,368)
Transportation equipment	(567,903)	(50,790)		(618,693)
Subtotal	(9,542,841)	(371,537)	-	(9,914,378)
Net capital assets being depreciated:	8,295,811	(340,742)	-	7,955,069
Net governmental capital assets	<u>\$ 8,430,586</u>	<u>\$ 158,374</u>	<u>\$ -</u>	<u>\$ 8,588,960</u>

Unallocated depreciation for the fiscal year ended June 30, 2019 amounted to \$371,537. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 – STATE AID ANTICIPATION NOTE PAYABLE:

At June 30, 2019, the District had issued a state anticipation note payable of \$1,000,000. The note has an interest rate of 1.75% and matures July 22, 2019. Proceeds of the note were used to fund school operations. The 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. Activity for the year ended June 30, 2019 is as follows:

<u>Balance</u> <u>June 30, 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2019</u>
<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 1,857,143</u>	<u>\$ 142,857</u>

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

NOTE 6 - LONG-TERM OBLIGATIONS:

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

	General obligation bonds	Notes from direct borrowings and direct placements	Compensated absences	Total
Balance July 1, 2018	\$ 1,735,000	\$ 478,726	\$ 180,944	\$ 2,394,670
Additions	2,572,097			2,572,097
Deletions	(656,807)	(138,905)	(7,815)	(803,527)
Balance June 30, 2019	3,650,290	339,821	173,129	4,163,240
Due within one year	(660,000)	(142,704)		(802,704)
Due in more than one year	<u>\$ 2,990,290</u>	<u>\$ 197,117</u>	<u>\$ 173,129</u>	<u>\$ 3,360,536</u>

The District's outstanding notes from direct borrowings and direct placements related to governmental activities of \$339,821 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.

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

General obligation bonds:

2017 refunding bonds due in annual installments of \$100,000 to \$600,000 through May 1, 2021 with variable interest of 1.14% to 1.64%	\$ 1,145,000
2018 school building and site bonds due in annual installments of \$60,000 to \$530,000 through May 1, 2033 with interest at 3.25% to 4%	2,410,000
Plus: Premium on Bond	124,199
Less: Discount on Bond	<u>(28,909)</u>
Total general obligation bonds	<u>3,650,290</u>

Notes from direct borrowings and direct placements:

Energy program loan agreement for \$1,228,355 total borrowed due in semi-annual installments of \$55,177, includes interest, through October 2021.	263,894
Three buses loan purchase agreement for a total purchase price of \$193,710, annual installments of \$38,166 to \$43,787 including interest through April 2021.	<u>75,927</u>
Total notes from direct borrowings	<u>339,821</u>
Total general obligation bonds and notes from direct borrowings	<u>3,990,111</u>
Compensated absences	<u>173,129</u>
Total general long-term obligations	<u>\$ 4,163,240</u>

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
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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 liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2019, \$1,260,000 of bonds outstanding are considered defeased.

DEBT SERVICE REQUIREMENTS:

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

<u>YEAR ENDED JUNE 30,</u>	<u>General obligation bonds</u>		<u>Notes from direct borrowings and direct placements</u>		<u>TOTAL</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	
2020	\$ 660,000	\$ 111,120	\$ 142,704	\$ 8,659	\$ 922,483
2021	580,000	99,720	142,755	4,754	827,229
2022	530,000	89,382	54,362	814	674,558
2023	175,000	68,182	-	-	243,182
2024	185,000	61,182	-	-	246,182
2025-2029	940,000	192,310	-	-	1,132,310
2030-2033	485,000	37,764	-	-	522,764
	<u>3,555,000</u>	<u>659,660</u>	<u>339,821</u>	<u>14,227</u>	<u>4,568,708</u>
Premium on bond	124,199				124,199
Discount on bond	(28,909)				(28,909)
Compensated absences					173,129
Total	<u>\$ 3,650,290</u>	<u>\$ 659,660</u>	<u>\$ 339,821</u>	<u>\$ 14,227</u>	<u>\$ 4,837,127</u>

A fund balance amount of \$426,237 is available in the debt service fund to service the general obligation debt.

Interest expense (all funds) for the year ended June 30, 2019 was \$90,155.

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES:

<u>RECEIVABLE FUND</u>		<u>PAYABLE FUND</u>	
General Fund	\$ 3,310	General Fund	\$ 8,149
2017 Debt Fund	8,367	Food Service Fund	3,310
		2018 Debt Fund	218
Total	<u>\$ 11,677</u>	Total	<u>\$ 11,677</u>

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 systems, and (3) payments between funds are made.

NOTE 8 – RETIREMENT AND POSTEMPLOYMENT BENEFITS:

Plan Description - The Michigan Public School Employees' Retirement System (MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/orsschools>.

CASS CITY PUBLIC SCHOOLS
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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 pension plans offered by MPSERS is as follows:

<u>Plan Name</u>	<u>Plan Type</u>	<u>Plan Status</u>
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

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 Plan members.

Pension Reform 2012 – On September 4, 2012 the Governor signed Public Acct 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 terminate public school employment.

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

CASS CITY PUBLIC SCHOOLS
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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 transition 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 as described above. 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 above. 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.

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*,

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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.

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 Post-Employment 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 \$1,828,000, with \$1,815,000 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 \$547,000, with \$534,000 specifically for the Defined Benefit Plan.

CASS CITY PUBLIC SCHOOLS
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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).

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 \$16,427,385 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 Reporting Unit'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 Reporting Unit's proportion was 0.05465 and 0.05614 percent.

<u>MPSERS (Plan) Non-university employers:</u>	<u>September 30 2018</u>	<u>September 30 2017</u>
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	0.05465%	0.05614%
Net Pension Liability for the District	\$ 16,427,385	\$ 14,548,390

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

For the year ended June 30, 2019, the Reporting Unit recognized pension expense of \$2,078,052.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Changes of assumptions	\$ 3,804,569	
Net difference between projected and actual earnings on pension plan investments		\$ (1,123,216)
Differences between expected and actual experience	76,226	(119,375)
Difference in employer contributions and proportionate share of contributions	219,899	(486,145)
Reporting Unit contributions subsequent to the measurement date	<u>1,304,836</u>	
Total	<u>\$ 5,405,530</u>	<u>\$ (1,728,736)</u>

\$1,304,836, 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.

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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 ended September 30,	Amount
2019	\$ 1,069,200
2020	695,309
2021	428,665
2022	178,784

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 \$4,265,194 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 0.05366 percent and 0.05605 percent.

MPERS (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	0.05366%	0.05605%
Net Other Postemployment Benefit Liability for the District	\$ 4,265,194	\$ 4,963,457

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 \$169,002.

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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
Change of assumptions	\$ 451,686	
Net difference between projected and actual earnings on plan investments		\$ (163,922)
Difference between expected and actual experience		(793,862)
Changes in proportion and differences between employer contributions and proportionate share of contributions	183	(180,628)
Reporting Unit contributions subsequent to the measurement date	318,323	
Total	\$ 770,192	\$ (1,138,412)

\$318,323, 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 ended September 30,	Amount
2019	\$ (164,185)
2020	(164,185)
2021	(164,185)
2022	(130,756)
2023	(63,232)

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-2107 from 2006.

Active: RP-2014 Male and Female Healthy Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2107 from 2006.

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Disabled Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2107 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 annual pension valuations beginning with the September 30, 2017 valuation.

The long-term expected rate of return on pension and other postemployment benefit plan investments - The rate was 7.05% (7% Pension Plus Plan), and 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% to year twelve.

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:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0%	5.7%
Private Equity Pools	18.0%	9.2%
International Equity	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%	9.2%
Short Term Investment Pools	2.0%	0.0%
Total	<u>100.0%</u>	

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

Pension Discount rate - The discount rate used to measure the total pension liability was 7.05% (7% for Pension Plus Plan and 6.0% 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% (7.0% for the Pension Plus Plan and 6.0% for the Pension Plus 2 Plan). The projection of cash flows used to determine the discount rate assumed that plan members 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.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

OPEB Discount rate – The 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 project 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 the discount rate of 7.05% (7% for Pension Plus Plan and 6.0% 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
Reporting Unit's proportionate share of the net pension liability	\$ 21,567,887	\$ 16,427,385	\$ 12,156,463

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 the 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
Reporting Unit's proportionate share of the net other postemployment benefit liability	\$ 5,120,279	\$ 4,265,194	\$ 3,545,964

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% Decrease	Healthcare	1% Increase
		cost trend rates	
Reporting Unit's proportionate share of the net other postemployment benefit liability	\$ 3,508,075	\$ 4,265,194	\$ 5,133,765

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 payment for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL).

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

NOTE 9 - OPERATING LEASES:

The School District entered into a 5-year lease agreement with Boss Solutions in August 2014 for the lease of new copy machines and printers for \$2,756 per month. At June 30, 2019, future lease payments under such leases are as follows:

June 30, 2020	\$ 5,512
	\$ 5,512

NOTE 10 - COMMITMENTS AND CONTINGENCIES:

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. 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 believes such amounts, if any, would be immaterial.

The District has active capital projects outstanding at June 30, 2019. Approximately, \$2,040,075 is restricted and recorded as fund balance in the 2018 Capital Project Fund.

NOTE 11 - RISK MANAGEMENT:

The District is exposed to risk of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. With regard to injuries to employees, the District participates in an association of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The association is considered a public entity risk sharing pool. The District pays annual premiums to the association for its workers' disability compensation coverage. In the event the association's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the policy year may be subject to special assessment to make up the deficiency. The association maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required. This program is recorded in the general fund.

The District continues to carry commercial insurance for other risks of loss, including property and casualty, errors and omissions, fleet and employee health and accident insurance. No settlements have occurred in excess of coverage for this fiscal year or any of the prior three years.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

NOTE 12 – 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 Industrial Facilities Tax Exemptions granted by cities, villages, and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities. The property taxes abated for all funds by municipality under these programs are as follows:

Municipality	Taxes Abated
Elkland Township	\$ 29,382
Total	\$ 29,382

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 significant abatements made by the District.

NOTE 13 – SUBSEQUENT EVENT:

The District has approved borrowing \$700,000 for fiscal year 2020 to replace the note payable as described in Note 5.

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.

REQUIRED SUPPLEMENTARY INFORMATION

CASS CITY PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2019

	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
REVENUES:				
Local sources				
Property Tax	\$ 887,480	\$ 910,975	\$ 912,300	\$ 1,325
Interest	30,393	30,000	40,357	10,357
Other	297,852	311,150	319,536	8,386
Total local sources	<u>1,215,725</u>	<u>1,252,125</u>	<u>1,272,193</u>	<u>20,068</u>
State source	7,976,560	8,167,981	8,164,843	(3,138)
Federal sources	652,940	665,762	665,590	(172)
Other transactions:				
Insurance reimbursements	-	8,865	9,115	250
Transfers from other districts	42,510	60,890	64,529	3,639
TOTAL REVENUES	<u>9,887,735</u>	<u>10,155,623</u>	<u>10,176,270</u>	<u>20,647</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	5,179,861	5,073,459	5,048,355	25,104
Added needs	1,285,231	1,260,985	1,287,385	(26,400)
Total instruction	<u>6,465,092</u>	<u>6,334,444</u>	<u>6,335,740</u>	<u>(1,296)</u>
Supporting services:				
Pupil	580,748	644,890	640,780	4,110
Instructional staff	91,147	75,805	67,204	8,601
General administration	308,304	321,556	314,117	7,439
School administration	611,065	597,735	613,234	(15,499)
Business	173,588	198,288	193,888	4,400
Operation/maintenance	551,150	675,841	651,820	24,021
Pupil transportation	326,560	386,900	372,598	14,302
Central	230,460	258,988	252,532	6,456
Athletics	226,010	278,310	285,066	(6,756)
Total supporting services	<u>3,099,032</u>	<u>3,438,313</u>	<u>3,391,239</u>	<u>47,074</u>
Community services	169,379	180,650	181,628	(978)
Capital outlay	-	19,396	19,396	-
Debt service:				
Principal retirement	142,418	140,200	138,905	1,295
Interest	11,682	11,500	12,579	(1,079)
TOTAL EXPENDITURES	<u>9,887,603</u>	<u>10,124,503</u>	<u>10,079,487</u>	<u>45,016</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>132</u>	<u>31,120</u>	<u>96,783</u>	<u>65,663</u>
OTHER FINANCING SOURCES (USES):				
Sale of school property	-	500	751	251
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>500</u>	<u>751</u>	<u>251</u>
NET CHANGE IN FUND BALANCE	<u>\$ 132</u>	<u>\$ 31,620</u>	<u>97,534</u>	<u>\$ 65,914</u>
FUND BALANCE - BEGINNING OF YEAR			<u>1,833,350</u>	
FUND BALANCE - END OF YEAR			<u>\$ 1,930,884</u>	

CASS CITY PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2019

	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
REVENUES:				
Local Sources:				
Food sales	\$ 180,600	\$ 170,400	\$ 177,156	\$ 6,756
Interest	2,000	2,000	2,171	171
Other	-	-	443	443
Total Local Sources	182,600	172,400	179,770	7,370
State Sources:				
State Lunch Aid	19,000	20,730	20,532	(198)
Total State Sources	19,000	20,730	20,532	(198)
Federal Sources:				
National School Lunch Program	292,400	284,000	285,455	1,455
USDA Commodities	47,600	44,700	48,958	4,258
Total Federal Sources	340,000	328,700	334,413	5,713
TOTAL REVENUES	541,600	521,830	534,715	12,885
EXPENDITURES:				
School Service Activities:				
Salaries	139,100	128,400	129,654	(1,254)
Employee benefits	84,750	77,900	78,037	(137)
Purchased services	36,600	49,300	47,560	1,740
Supplies	271,900	253,200	255,283	(2,083)
Miscellaneous	6,250	7,750	7,571	179
TOTAL EXPENDITURES	538,600	516,550	518,105	(1,555)
NET CHANGE IN FUND BALANCE	\$ 3,000	\$ 5,280	16,610	\$ 11,330
FUND BALANCE - BEGINNING OF YEAR			116,011	
FUND BALANCE - END OF YEAR			\$ 132,621	

CASS CITY PUBLIC SCHOOLS
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 (DETERMINED AS OF
PLAN YEAR ENDED SEPTEMBER 30)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.05465%	0.05614%	0.05757%	0.05570%	0.05394%
Reporting unit's proportionate share of net pension liability	\$ 16,427,385	\$ 14,548,390	\$ 14,362,381	\$ 13,603,917	\$ 11,880,556
Reporting unit's covered-employee payroll	\$ 4,732,306	\$ 4,656,442	\$ 4,893,722	\$ 4,698,243	\$ 4,667,429
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	347.13%	312.44%	293.49%	289.55%	254.54%
Plan fiduciary net position as a percentage of total net pension liability (Non-university employers)	62.36%	64.21%	63.27%	63.17%	66.20%

This schedule is presented to illustrate the requirements 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.

CASS CITY PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REPORTING UNIT'S PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF
THE YEAR ENDED JUNE 30)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,815,252	\$ 1,381,720	\$ 1,319,718	\$ 1,297,682	\$ 1,059,304
Contributions in relation to statutorily required contributions	<u>1,815,252</u>	<u>1,381,720</u>	<u>1,319,718</u>	<u>1,297,682</u>	<u>1,059,304</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Reporting unit's covered-employee payroll	\$ 4,617,804	\$ 4,612,396	\$ 4,612,146	\$ 4,803,570	\$ 4,748,775
Contributions as a percentage of covered-employee payroll	39.31%	29.96%	28.61%	27.01%	22.31%

This schedule is presented to illustrate the requirements 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.

CASS CITY PUBLIC SCHOOLS
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 (DETERMINED AS OF
PLAN YEAR ENDED SEPTEMBER 30)

	<u>2018</u>	<u>2017</u>
Reporting unit's proportion of net OPEB liability (%)	0.05366%	0.05605%
Reporting unit's proportionate share of net OPEB liability	\$ 4,265,194	\$ 4,963,457
Reporting unit's covered-employee payroll	\$ 4,732,306	\$ 4,656,442
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	90.13%	106.59%
Plan fiduciary net position as a percentage of total net OPEB liability (Non-university employers)	42.95%	36.39%

This schedule is presented to illustrate the requirements 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.

CASS CITY PUBLIC SCHOOLS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF REPORTING UNIT'S OPEB CONTRIBUTIONS
 MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
 LAST 10 FISCAL YEARS (DETERMINED AS OF
 THE YEAR ENDED JUNE 30)

	<u>2019</u>	<u>2018</u>
Statutorily required contributions	\$ 533,567	\$ 300,964
Contributions in relation to statutorily required contributions	<u>533,567</u>	<u>300,964</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll (OPEB)	\$ 4,617,804	\$ 4,612,396
Contributions as a percentage of covered-employee payroll	11.55%	6.53%

This schedule is presented to illustrate the requirements 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.

CASS CITY PUBLIC SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2019

Pension Information

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

Changes of benefit terms - There were no changes of benefit terms in 2018.

Changes of assumptions - There were no changes of benefit assumptions in 2018.

Wage inflation rate decreased to 2.75% from 3.5%

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

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

CASS CITY PUBLIC SCHOOLS
SCHEDULE OF BONDED DEBT
2017 REFUNDING DEBT RETIREMENT
JUNE 30, 2019

<u>DUE DATE</u>	<u>PRINCIPAL</u>	<u>RATES</u>	<u>INTEREST DUE</u>	<u>PAYMENT DUE</u>
5/1/2020	\$ 600,000	1.50%	\$ 17,938	\$ 617,938
5/1/2021	545,000	1.64%	8,938	553,938
TOTAL	<u>\$ 1,145,000</u>		<u>\$ 26,876</u>	<u>\$ 1,171,876</u>

The bond proceeds were used to refund the 2008 debt service. The 2008 debt service bond proceeds were used for the purpose of remodeling, furnishing and refurbishing, equipping and re-equipping school buildings, including the bus garage; acquiring, installing, equipping and re-equipping school buildings for technology; acquiring buses; and developing and improving athletic facilities and sites.

CASS CITY PUBLIC SCHOOLS
SCHEDULE OF BONDED DEBT
2018 DEBT RETIREMENT, SERIES I
JUNE 30, 2019

<u>DUE DATE</u>	<u>PRINCIPAL DUE MAY</u>	<u>RATES</u>	<u>INTEREST DUE NOVEMBER</u>	<u>INTEREST DUE MAY</u>	<u>PAYMENT DUE</u>
2020	\$ 60,000	4.00%	\$ 46,591	\$ 46,591	\$ 153,182
2021	35,000	4.00%	45,391	45,391	125,782
2022	530,000	4.00%	44,691	44,691	619,382
2023	175,000	4.00%	34,091	34,091	243,182
2024	185,000	4.00%	30,591	30,591	246,182
2025	190,000	4.00%	26,891	26,891	243,782
2026	195,000	4.00%	23,091	23,091	241,182
2027	195,000	4.00%	19,191	19,191	233,382
2028	180,000	4.00%	15,291	15,291	210,582
2029	180,000	4.00%	11,691	11,691	203,382
2030	170,000	3.25%	8,092	8,092	186,184
2031	105,000	3.25%	5,329	5,329	115,658
2032	105,000	3.40%	3,623	3,623	112,246
2033	105,000	3.50%	1,838	1,838	108,676
TOTAL	<u>\$ 2,410,000</u>		<u>\$ 316,392</u>	<u>\$ 316,392</u>	<u>\$ 3,042,784</u>

The above bonds dated October 18, 2018 were used for the purpose of remodeling, furnishing and refurbishing, equipping and re-equipping school buildings, including the bus garage; acquiring, installing, equipping and re-equipping school buildings for technology; acquiring buses; and developing and improving athletic facilities and sites. The amounts of the original issue was \$2,470,000.

CASS CITY PUBLIC SCHOOLS
SCHEDULE OF PAYMENTS ON LOANS
JUNE 30, 2019

ENERGY PROGRAM LOAN

**DEBT SERVICE REQUIREMENT
FOR FISCAL YEAR**

<u>DUE DATE</u>	<u>PRINCIPAL DUE</u>	<u>INTEREST DUE</u>	<u>AMOUNT</u>
10/4/2019	\$ 51,219	\$ 3,958	\$ 55,177
4/4/2020	51,987	3,190	55,177
10/4/2020	52,767	2,410	55,177
4/4/2021	53,558	1,619	55,177
10/4/2021	54,363	814	55,177
	<u>\$ 263,894</u>	<u>\$ 11,991</u>	<u>\$ 275,885</u>

The above bond issue bears interest at 4.15%. The bond proceeds were used for purchasing and installation for energy efficient building components.

SCHOOL BUS LOAN

**DEBT SERVICE REQUIREMENT
FOR FISCAL YEAR**

<u>DUE DATE</u>	<u>PRINCIPAL DUE</u>	<u>INTEREST DUE</u>	<u>AMOUNT</u>
6/30/2020	\$ 39,498	\$ 1,511	\$ 41,009
6/30/2021	36,429	725	37,154
	<u>\$ 75,927</u>	<u>\$ 2,236</u>	<u>\$ 78,163</u>

The above bond issue bears interest at 1.99%. The loan proceeds were used for purchasing three school buses.

CASS CITY PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	AWARD AMOUNT	ACCRUED (UNEARNED) REVENUE 6/30/2018	(MEMO ONLY) PRIOR YEAR EXPENDITURES	Adjustments	CURRENT YEAR RECEIPTS (CASH BASIS)	CURRENT YEAR EXPENDITURES	ACCRUED (UNEARNED) REVENUE 6/30/2019
U.S. DEPARTMENT OF AGRICULTURE:									
Passed through the Michigan Department of Education:									
Child Nutrition Cluster:									
Non-Cash assistance (donated foods):									
National School Lunch Program - non bonus	10.555		\$ 48,958	\$ -	\$ -	\$ -	\$ 48,958	\$ 48,958	\$ -
			<u>48,958</u>	<u>-</u>	<u>-</u>		<u>48,958</u>	<u>48,958</u>	<u>-</u>
Cash Assistance:									
School Breakfast Program	10.553	181970	5,365				5,365	5,365	-
		191970	39,415				39,415	39,415	-
			<u>44,780</u>	<u>-</u>	<u>-</u>		<u>44,780</u>	<u>44,780</u>	<u>-</u>
National School Lunch Program	10.555	181960	28,859				28,859	28,859	-
		181980	809				809	809	-
		191960	185,795				185,795	185,795	-
		191980	4,060				4,060	4,060	-
			<u>219,523</u>	<u>-</u>	<u>-</u>		<u>219,523</u>	<u>219,523</u>	<u>-</u>
Summer Food Program	10.559	180900	17,267	3,465	3,465		17,266	13,801	-
		181900	1,798	359	359		1,798	1,439	-
		190900	5,357	-	-		577	5,357	4,780
		191900	555	-	-		60	555	495
			<u>24,977</u>	<u>3,824</u>	<u>3,824</u>		<u>19,701</u>	<u>21,152</u>	<u>5,275</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE (CLUSTER TOTAL)			<u>338,238</u>	<u>3,824</u>	<u>3,824</u>		<u>332,962</u>	<u>334,413</u>	<u>5,275</u>

The accompanying notes are an integral part of this schedule.

CASS CITY PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	AWARD AMOUNT	ACCRUED (UNEARNED) REVENUE 6/30/2018	(MEMO ONLY) PRIOR YEAR EXPENDITURES	Adjustments	CURRENT YEAR RECEIPTS (CASH BASIS)	CURRENT YEAR EXPENDITURES	ACCRUED (UNEARNED) REVENUE 6/30/2019
U.S. DEPARTMENT OF EDUCATION:									
Passed through Michigan Dept. of Education:									
Title I, Part A	84.010	181530/1718	\$ 355,230	\$ 108,074	\$ 323,886	\$ (648)	\$ 107,426	\$ -	\$ -
Title I, Part A		191530/1819	<u>331,731</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>240,730</u>	<u>307,869</u>	<u>67,139</u>
Total Title I Cluster			<u>686,961</u>	<u>108,074</u>	<u>323,886</u>	<u>-</u>	<u>348,156</u>	<u>307,869</u>	<u>67,139</u>
Title II, Part A	84.367	180520/1718	67,077	28,107	66,345		28,107		-
Title II, Part A		190520/1819	<u>72,974</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,196</u>	<u>69,661</u>	<u>18,465</u>
			<u>140,051</u>	<u>28,107</u>	<u>66,345</u>	<u>-</u>	<u>79,303</u>	<u>69,661</u>	<u>18,465</u>
Title V, Part B	84.358	190660/1819	<u>18,189</u>	<u>-</u>	<u>-</u>		<u>17,955</u>	<u>17,955</u>	<u>-</u>
Title IV Part A Student Support & Academic Enrichment	84.424	190750/1819	<u>22,639</u>	<u>-</u>	<u>-</u>		<u>22,639</u>	<u>22,639</u>	<u>-</u>
TOTAL PASSED THROUGH MICHIGAN DEPT. OF EDUCATION:			<u>867,840</u>	<u>136,181</u>	<u>390,231</u>	<u>-</u>	<u>468,053</u>	<u>418,124</u>	<u>85,604</u>
Passed through Tuscola Intermediate School District:									
IDEA Special Education	84.027A	1819	<u>247,466</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>247,466</u>	<u>247,466</u>	<u>-</u>
Total Passed through Tuscola Intermediate School District:			<u>247,466</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>247,466</u>	<u>247,466</u>	<u>-</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>1,453,544</u>	<u>140,005</u>	<u>394,055</u>	<u>(648)</u>	<u>1,048,481</u>	<u>1,000,003</u>	<u>90,879</u>

The accompanying notes are an integral part of this schedule.

CASS CITY PUBLIC SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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 Cass City Public Schools' 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 Cass City Public Schools, it is not intended to and does not present the financial position or changes in net position of Cass City Public Schools.

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 indentifying numbers are presented where available. Cass City Public Schools has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 – AUDITEE INFORMATION

The District qualifies for low risk auditee status. Management has utilized the Cash Management System and the Grant Auditor's Report in preparing the Schedule of Expenditures of Federal Awards.

NOTE 4 - RECONCILIATION WITH AUDITED FINANCIAL STATEMENTS

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

General Fund	\$665,590
Special Revenue Fund	<u>334,413</u>
Total	<u>\$1,000,003</u>

NOTE 5 - SUBRECIPIENT PASS THROUGH AMOUNTS

Cass City Public Schools did not provide any federal awards to subrecipients.



Thomas B. Doran, CPA
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.....
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Kendra K. Bednarski, CPA

**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
Cass City Public Schools
Cass City, MI 48726

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 Cass City Public Schools' as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Cass City Public Schools' basic financial statements and have issued our report thereon dated October 24, 2019.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency, see item 2019-001.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Cass City Public Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

CASS CITY PUBLIC SCHOOLS' RESPONSES TO FINDINGS

Cass City Public Schools' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Cass City Public Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Anderson, Tuckey, Bernhardt & Doran, P.C.

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CARO, MICHIGAN**

October 24, 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
Cass City Public Schools
Cass City, MI 48726

Report On Compliance For Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with the 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 Cass City Public Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* (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 Cass City Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our unmodified opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Cass City Public Schools' compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

Our consideration of the 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 that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Anderson, Tuckey, Bernhardt & Doran, P.C.

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CARO, MICHIGAN**

October 24, 2019

CASS CITY PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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 weaknesses? x Yes _____ None reported
- Noncompliance material to financial statements noted? _____ Yes x No

Federal Awards

Internal control over major programs:

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

Type of auditor’s report issued on compliance for major programs: *Unmodified*

Any audit findings that are required to be reported in accordance with Title 2 CFR 200.516(a) _____ Yes x No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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

CASS CITY PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019

Section II – Financial Statement Findings

Finding 2019-001 Considered a significant deficiency

Criteria:

Statement on Auditing Standards #115 titled Communicating Internal Control Related matters Identified in an Audit (issued October 2008), requires us to communicate in writing when a client has a small staff that limits the segregation of duties.

Condition:

Due to the limited number of staff, many critical duties are combined and given to the available staff and/or board members.

Context:

Internal controls are weakened due to the lack of segregation of duties.

Effect:

Other staff members and/or board members must be utilized in order to achieve good internal controls.

Cause:

The district doesn't have enough staff in the business office to have a proper segregation of duties.

Recommendation:

At this time, we recommend the district segregate the duties whenever possible and communicate this as required by professional standards. The correct process meets the definition of a significant deficiency as defined in Statement on Auditing Standards #115.

Client Response:

We are aware of this deficiency and believe it is not cost beneficial in our situation to hire additional staff. We will continue to segregate duties in the business office based on available staff. We would expect this situation to be ongoing in future years.

Section III – Federal Award Findings and Questioned Costs

None

CASS CITY PUBLIC SCHOOLS
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
YEAR ENDED JUNE 30, 2019

Section II – Financial Statement Findings

Finding 2018-001 and 2017-001 Considered a significant deficiency

Criteria:

Statement on Auditing Standards #115 titled Communicating Internal Control Related matters Identified in an Audit (issued October 2008), requires us to communicate in writing when a client has a small staff that limits the segregation of duties.

Condition:

Due to the limited number of staff, many critical duties are combined and given to the available staff and/or board members.

Context:

Internal controls are weakened due to the lack of segregation of duties.

Effect:

Other staff members and/or board members must be utilized in order to achieve good internal controls.

Cause:

The district doesn't have enough staff in the business office to have a proper segregation of duties.

Recommendation:

At this time, we recommend the district segregate the duties whenever possible and communicate this as required by professional standards. The correct process meets the definition of a significant deficiency as defined in Statement on Auditing Standards #115.

Client Response:

We are aware of this deficiency and believe it is not cost beneficial in our situation to hire additional staff. We will continue to segregate duties in the business office based on available staff. We would expect this situation to be ongoing in future years.



Cass City Public Schools

4868 North Seeger Street
Cass City, MI 48726
Phone: 989-872-2200
Fax: 989-872-5015
www.casscityschools.org

*Learning from the past.
Making the most of the present.
Preparing for the future.*

Jeffrey L. Hartel
Superintendent
989-872-2200

Chad Daniels
Jr./Sr. High School
Principal
989-872-2148

Don Markel
Assistant Principal
Athletic Director
989-912-1836

Aaron Fernald
Elementary School
Principal
989-872-2158

Lyle Severance
Technology Director
989-912-1843

Allison Zimba
Chief Financial Officer
989-912-1846

Shari Bock
Food Service Director
989-872-5729

CASS CITY PUBLIC SCHOOLS CORRECTIVE ACTION PLAN JUNE 30, 2019

Certain matters were brought to our attention as a result of the audit process. These are described at length in the Schedule of Findings and Questioned Costs. We evaluated the matter as described below, and have described our planned actions as a result.

2019-001 - Segregation of Duties

Planned Corrective Action: We are aware of this deficiency and believe it is not cost beneficial in our situation to hire additional staff. We will continue to segregate duties in the business office based on available staff. We would expect this situation to be ongoing in future years.

Responsible Party: Jeffrey Hartel

Date of Planned Corrective Action: Ongoing

Management Assessment: We concur with the audit assessment regarding this matter.

MISSION STATEMENT

All School personnel will accept the responsibility to provide the opportunity for all students to be productive in a global society.



ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants

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To the Members of the Board
Cass City Public Schools

We have audited the financial statements of **Cass City Public Schools** for the year ended **June 30, 2019**, and have issued our report thereon dated October 24, 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. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards, Government Auditing Standards, and OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered **Cass City Public Schools'** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether **Cass City Public Schools'** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also in accordance with the Uniform Guidance, we examined, on a test basis, evidence about **Cass City Public Schools'** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on **Cass City Public Schools'** compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on **Cass City Public Schools'** compliance with those requirements.

Our responsibility for the supplementary information accompanying the financial statement, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

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 **Cass City Public Schools** 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 **Cass City Public Schools** 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 were:

Management's estimates of the net pension liability and the net other postemployment benefit liability are based on actuarial data. We evaluated the key factors and assumptions used to develop the balance of the net pension liability and net other postemployment benefit liability in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Management's estimate of the lives of capital assets. We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements 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 known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements were material, either individually or in the aggregate, to the financial statements taken as a whole.

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.

Members of the Board
Page three

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 24, 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 **Cass City Public Schools'** 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 **Cass City Public Schools'** 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) that 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, other knowledge we obtained during the 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 additional supplementary information, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the additional 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 Members of the Board and management of **Cass City Public Schools** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Anderson, Tuckey, Bernhardt, & Doran, P.C.
Certified Public Accountants
Caro, Michigan

October 24, 2019