Houghton Lake Community Schools
Houghton Lake, Michigan

Year Ended
June 30, 2019

Financial Statements and Single Audit Act Compliance

Rehmann
Business wisdom delivered

HOUGHTON LAKE COMMUNITY SCHOOLS

For the Year Ended June 30, 2019

ADMINISTRATION

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HOUGHTON LAKE COMMUNITY SCHOOLS

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Independent Auditors' Report

October 31, 2019

Board of Education
Houghton Lake Community School District
Houghton Lake, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the general fund, each major fund, and the aggregate remaining fund information of *Houghton Lake Community Schools* (the "District"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' 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 contain 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 auditors' 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 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.

Restatement

As discussed in Note 17 to the financial statements, beginning net position of governmental activities and fund balance of the general fund were restated to correct an error in prepaids from the prior year. Our opinion is not modified with respect to this matter.

Opinions

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the schedules for the pension and other postemployment benefit plans, as listed 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 the District's basic financial statements. The combining and individual fund financial statements and schedules, and schedule of outstanding bonded indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules, and schedule of outstanding bonded indebtedness, are the responsibility of management and were derived from and relate 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 31, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

This section of the annual financial report presents management's discussion and analysis of Houghton Lake Community School's (hereon referred to as the "District") performance during the fiscal year ending June 30, 2019. Please read this along with the financial statements of the District, which immediately follow this section.

The financial report is presented in the format required by the Governmental Accounting Standards Board (GASB) in their Statement No. 34. This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District's finances as a whole.

Financial Highlights

▪ Total net position	$(23,817,174)
▪ Change in total net position	(598,075)
▪ Fund balances, governmental funds	1,691,750
▪ Change in fund balances, governmental funds	(335,552)
▪ Change in fund balance, general fund	(498,884)
▪ Installment debt outstanding	5,010,000
▪ Change in installment debt	(390,000)
▪ Capital assets, net	6,804,665

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components:

1. Government-wide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements

This report also contains other required supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to the private business sector.

The *statement of net position* presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the residual balance reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Management's Discussion and Analysis

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include instruction, supporting services, food service, and community service. The District has no business-type activities as of and for the year ending June 30, 2019.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Like other state and local governments, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the District can be divided into two categories: *governmental funds* and *fiduciary funds.*

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Readers may better understand the long-term impact of the government's near-term financing decisions by doing it this way. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the QZAB debt service fund, which are the District's major funds. Data from the other nonmajor governmental funds are aggregated together and shown in the nonmajor governmental funds column.

The District adopts an annual appropriated budget for its general and special revenue funds. The budgetary comparison statement has been provided herein to demonstrate compliance with the general fund budget.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management's discussion and analysis and the schedules for the MPSERS pension and other postemployment benefit plan immediately following the notes to the financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $23,817,174 at the close of the most recent fiscal year.

	Net Position	
	2019	2018
Assets		
Current and other assets	$ 4,064,319	$ 4,462,122
Capital assets, net	6,804,665	7,362,828
	10,868,984	11,824,950
Deferred outflows of resources	10,117,771	6,207,784
Liabilities		
Current and other liabilities	2,278,399	1,765,052
Long-term liabilities	5,525,548	5,580,714
Net pension liability, due in more than one year	26,216,455	22,759,611
Net other postemployment benefits liability, due in more than one year	6,882,097	7,786,824
	40,902,499	37,892,201
Deferred inflows of resources	3,901,430	2,414,872
Net position		
Net investment in capital assets	1,710,481	1,870,816
Restricted	1,304,311	1,094,671
Unrestricted (deficit)	(26,831,966)	(25,239,826)
Total net position	$(23,817,174)	$(22,274,339)

The largest portion of the District's net position reflects its investment in capital assets (i.e., land, site improvements, buildings and improvements, machinery and equipment and transportation equipment), less accumulated depreciation. The District uses these capital assets to provide services to the students; consequently, these assets are not available for future spending. The District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Management's Discussion and Analysis

Long-term liabilities include general obligation bonds used to finance acquisition of capital assets, were reduced by the normal scheduled principal payments during the year. The debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported to show legal constraints which limit use of some of the assets. Debt covenants and legislation limit the District's ability to use that net position for day-to-day operations.

The net position represents the accumulated results of all past years' activities. This amount will be affected by the year-to-year combined operations. The summary of the years' activity for the District as a whole are reported below.

The District's net position decreased by $598,075 during the 2018-2019 school year, compared to a decrease of $784,821 during the 2017-2018 school year.

	Change in Net Position	
	2019	2018
Program revenues		
Charges for services	$ 231,168	$ 130,014
Operating grants and contributions	5,781,985	5,594,183
General revenues		
Property taxes	8,405,190	8,202,371
Unrestricted state aid	2,036,405	1,955,891
Other	29,773	148,706
Total revenues	16,484,521	16,031,165
Expenses		
Instruction	9,492,024	8,759,749
Supporting services	6,206,615	6,201,269
Food service	831,613	832,963
Community service	134,052	526,711
Interest on long-term debt	131,822	167,473
Unallocated depreciation	286,470	327,821
Total expenses	17,082,596	16,815,986
Change in net position	(598,075)	(784,821)
Net position		
Beginning of year	(22,274,339)	(13,653,940)
Restatement for correction of an error	(944,760)	-
Restatement for implementation of GASB 75	-	(7,835,578)
End of year	$(23,817,174)	$(22,274,339)

The differences seen above, between 2018-2019 and 2017-2018 revenues is mostly due to an increase in property taxes of $202,819 from the prior year. The increase in expenses from the prior year is mainly due to the increase in instruction expenses of $732,275 due to increase costs for staff, including salaries and benefits as well as increased cost for supplies. The decrease in community service expenses of $392,659 due to a decrease in salaries and benefits for several positions related to the Safe and Healthy Schools grant that the District no longer receives.

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $1,691,750. The fund balance consists of nonspendable, restricted, committed, or assigned to indicate that it is not available for new spending because the underlying assets are included in inventory and are not available for current expenditure, or it is constrained by externally or internally imposed restrictions. At the end of the current fiscal year, $234,904 is nonspendable for inventory and prepaids, $1,242,605 is restricted (externally) for debt service, $5,479 is committed for the forestry contract classroom project, and $208,762 is assigned (internally) for subsequent years budget, compensated absences and termination benefits.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, the total fund balance was $365,914, of which $151,673 was nonspendable, $5,479 was committed, and $208,762 was assigned. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The District had no unassigned fund balance at year-end. Total fund balance represents 2.50% of total general fund expenditures and other financing uses.

The fund balance of the District's general fund decreased $498,884 during the current fiscal year, compared to a decrease of $285,205 in the prior fiscal year. This is primarily attributable to increased costs for staff, including staff salaries and benefits.

The fund balance of the District's QZAB debt service fund increased $76,842 during the current fiscal year, consistent with prior year's increase and is related to the required funds deposited in accordance with the debt agreement.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted at year end. A statement showing the District's general fund original and final budget amounts compared with amounts actually incurred is provided with the governmental fund section in these financial statements.

The original budget is adopted by the school board before the start of the District's fiscal year and amendments are adopted throughout the year when better information becomes available. The difference between the two relates to adjustments made in state revenue, benefits, staffing, and general expenditures throughout the course of the year. Once the adjustments are known, the budget is adjusted accordingly.

Actual total expenses exceeded the final amended budget by $430,866 mainly due to basic programs being over budget by $428,965, which was a result of increased cost for staffing salaries and benefits that were not anticipated at the final budget amendment.

Management's Discussion and Analysis

Capital Assets

As of June 30, 2019, the District had $6,804,665 in net capital assets including site improvements, buildings and improvements, machinery and equipment, and transportation equipment.

	Capital Assets (net of depreciation)	
	2019	2018
Site improvements	$ 1,840,095	$ 1,962,111
Buildings and improvements	14,541,358	14,541,358
Machinery and equipment	2,805,532	2,797,917
Transportation equipment	1,445,723	1,570,549
	20,632,708	20,871,935
Less accumulated depreciation	(13,828,043)	(13,509,107)
Total capital assets, net	$ 6,804,665	$ 7,362,828

The decrease of $558,163 from June 30, 2018 to June 30, 2019 is attributable to the current year additions of $41,751, offset by the increase in accumulated depreciation of $599,914. Additional information on the District's capital assets can be found in the notes to the financial statements.

Long-term Debt

The long-term obligations for the District decreased from $6,005,714 at June 30, 2018 to $5,525,548 at the end of June 30, 2019. The total decrease of $480,166 is mainly the result of the scheduled payments made on the outstanding debt issuance.

Additional information on the District's long-term debt can be found in the notes to financial statements.

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the District's budget for the 2019-2020 fiscal year:

- Enrollment down 25 students
- Staffing levels, step and education attainment
- 2019-20 contracts for staff
- Health insurance costs for 2019-20
- Retirement rate payment to ORS
- 2019-20 per pupil funding amount

Management is working on a plan to reduce expenditures in order to keep the general fund out of a deficit fund balance.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Houghton Lake Community Schools, 6001 W. Houghton Lake Drive; Houghton Lake, MI 48629.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

HOUGHTON LAKE COMMUNITY SCHOOLS

Statement of Net Position

June 30, 2019

	Governmental Activities
Assets	
Cash and cash equivalents	$ 1,255,929
Investments	917,969
Receivables	1,655,517
Inventories	132,951
Prepaids	101,953
Capital assets being depreciated, net	6,804,665
Total assets	10,868,984
Deferred outflows of resources	
Deferred charge on bond refunding	109,850
Deferred pension amounts	8,812,414
Deferred OPEB amounts	1,195,507
Total deferred outflows of resources	10,117,771
Liabilities	
Accounts payable and accrued liabilities	1,506,102
Unearned revenue	772,297
Long-term debt:	
Due within one year	454,613
Due in more than one year	5,070,935
Net pension liability, due in more than one year	26,216,455
Net other postemployment benefits liability, due in more than one year	6,882,097
Total liabilities	40,902,499
Deferred inflows of resources	
Deferred pension amounts	2,217,692
Deferred OPEB amounts	1,683,738
Total deferred inflows of resources	3,901,430
Net position	
Net investment in capital assets	1,710,481
Restricted for:	
Food service	209,066
Debt service	1,095,245
Unrestricted (deficit)	(26,831,966)
Total net position	$ (23,817,174)

The accompanying notes are an integral part of these basic financial statements.

HOUGHTON LAKE COMMUNITY SCHOOLS

Statement of Activities

For the Year Ended June 30, 2019

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue
Governmental activities:				
Instruction	$ 9,492,024	$ -	$ 4,855,439	$ (4,636,585)
Supporting services	6,206,615	164,141	156,612	(5,885,862)
Food service	831,613	67,027	769,934	5,348
Community service	134,052	-	-	(134,052)
Interest on long-term debt	131,822	-	-	(131,822)
Unallocated depreciation	286,470	-	-	(286,470)
Total	$ 17,082,596	$ 231,168	$ 5,781,985	(11,069,443)
General revenues:				
Property taxes				8,405,190
Unrestricted state aid				2,036,405
Unrestricted investment earnings				29,773
Total general revenues				10,471,368
Change in net position				(598,075)
Net position (deficit), beginning of year, as restated				(23,219,099)
Net position (deficit), end of year				$ (23,817,174)

The accompanying notes are an integral part of these basic financial statements.

FUND FINANCIAL STATEMENTS

HOUGHTON LAKE COMMUNITY SCHOOLS

Balance Sheet

Governmental Funds
June 30, 2019

	General Fund	QZAB Debt Service Fund	Nonmajor Governmental Funds	Totals
Assets				
Cash and cash equivalents	$ 1,029,891	$ -	$ 226,038	$ 1,255,929
Investments	-	917,969	-	917,969
Accounts receivable	24,574	-	-	24,574
Due from the ISD	115,695	-	-	115,695
Due from other governmental units	1,476,898	-	38,350	1,515,248
Due from other funds	86,156	-	252,472	338,628
Inventories	121,720	-	11,231	132,951
Prepaids	29,953	-	72,000	101,953
Total assets	$ 2,884,887	$ 917,969	$ 600,091	$ 4,402,947
Liabilities				
Accounts payable	$ 94,874	$ -	$ 121,908	$ 216,782
Salaries and benefits payable	1,267,795	-	-	1,267,795
Due to other funds	268,312	-	70,316	338,628
Unearned revenue	772,297	-	-	772,297
Total liabilities	2,403,278	-	192,224	2,595,502
Deferred inflow of resources				
Unavailable revenue	115,695	-	-	115,695
Fund balances				
Nonspendable	151,673	-	83,231	234,904
Restricted	-	917,969	324,636	1,242,605
Committed	5,479	-	-	5,479
Assigned	208,762	-	-	208,762
Total fund balances	365,914	917,969	407,867	1,691,750
Total liabilities, deferred inflow of resources and fund balances	$ 2,884,887	$ 917,969	$ 600,091	$ 4,402,947

The accompanying notes are an integral part of these basic financial statements.

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
June 30, 2019

Fund balances - total governmental funds	$ 1,691,750
Amounts reported for *governmental activities* in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets being depreciated, net	6,804,665
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current expenditures. Those assets (i.e., receivables) are offset by deferred inflows of resources in the governmental funds and, therefore, are not included in fund balance.	
Unavailable revenue	115,695
Deferred charge on refunding	109,850
Certain pension and OPEB-related amounts, such as the net pension and OPEB liabilities and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(26,216,455)
Net other postemployment benefit liability	(6,882,097)
Deferred inflows related to the net pension and OPEB liabilities	(3,901,430)
Deferred outflows related to the net pension and OPEB liabilities	10,007,921
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Bonds payable	(5,010,000)
Bond premiums	(194,034)
Termination benefits	(23,111)
Accrued interest on bonds payable	(21,525)
Compensated absences	(298,403)
Net position (deficit) of governmental activities	$ (23,817,174)

The accompanying notes are an integral part of these basic financial statements.

HOUGHTON LAKE COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2019

	General Fund	QZAB Debt Service Fund	Nonmajor Governmental Funds	Totals
Revenues				
Local sources:				
Taxes	$ 7,782,785	$ -	$ 622,405	$ 8,405,190
Charges for services	164,141	-	-	164,141
Food service	-	-	67,027	67,027
Transfers from other districts	58,878	-	-	58,878
Interest	6,092	22,159	1,522	29,773
Other	105,786	-	-	105,786
State sources	4,710,715	-	29,943	4,740,658
Federal sources	1,320,696	-	739,991	2,060,687
Total revenues	14,149,093	22,159	1,460,888	15,632,140
Expenditures				
Current:				
Instruction	8,599,372	-	-	8,599,372
Supporting services	5,870,426	-	-	5,870,426
Food service activities	-	-	830,667	830,667
Community services	134,052	-	-	134,052
Debt service:				
Principal	-	-	390,000	390,000
Interest and fiscal charges	-	10,001	129,649	139,650
Capital outlay	-	-	3,525	3,525
Total expenditures	14,603,850	10,001	1,353,841	15,967,692
Revenues over (under) expenditures	(454,757)	12,158	107,047	(335,552)
Other financing sources (uses)				
Transfers in	20,557	64,684	-	85,241
Transfers out	(64,684)	-	(20,557)	(85,241)
Total other financing sources (uses)	(44,127)	64,684	(20,557)	-
Net change in fund balances	(498,884)	76,842	86,490	(335,552)
Fund balances, beginning of year, as restated	864,798	841,127	321,377	2,027,302
Fund balances, end of year	$ 365,914	$ 917,969	$ 407,867	$ 1,691,750

The accompanying notes are an integral part of these basic financial statements.

HOUGHTON LAKE COMMUNITY SCHOOLS

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2019

Net change in fund balances - total governmental funds	$	(335,552)
Amounts reported for *governmental activities* in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital assets constructed/purchased		41,751
Depreciation expense		(599,914)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to subsequent fiscal years.		
Change in unavailable and unearned revenue		852,381
Repayment of debt principal is an expenditure in the funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal payments on long-term liabilities		390,000
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 funds.		
Amortization of bond premium		21,559
Amortization of deferred charges of refunding		(13,731)
Change in net pension liabilities and related deferred amounts		(1,228,397)
Change in net OPEB liabilities and related deferred amounts		205,221
Change in the accrual for compensated absences		60,357
Change in the accrual for termination benefits		8,250
Change in net position of governmental activities	$	(598,075)

The accompanying notes are an integral part of these basic financial statements.

HOUGHTON LAKE COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources:				
Property taxes	$ 7,842,673	$ 7,778,318	$ 7,782,785	$ 4,467
Charges for services	149,584	141,834	164,141	22,307
Transfers from other districts	70,838	70,838	58,878	(11,960)
Interest	2,000	6,500	6,092	(408)
Other	130,560	144,905	105,786	(39,119)
State sources	4,406,405	4,700,066	4,710,715	10,649
Federal sources	1,457,592	1,384,854	1,320,696	(64,158)
Total revenues	14,059,652	14,227,315	14,149,093	(78,222)
Expenditures				
Current:				
Instruction:				
Basic programs	5,968,767	6,199,878	6,628,843	428,965
Added needs	2,040,556	1,880,819	1,880,459	(360)
Adult education	72,724	119,634	90,070	(29,564)
	8,082,046	8,200,330	8,599,372	399,042
Supporting services:				
Pupil services	705,021	903,714	903,525	(189)
Instructional staff	537,816	301,667	295,088	(6,579)
General administration	316,327	322,294	374,727	52,433
School administration	1,147,008	1,217,291	1,209,133	(8,158)
Business office	377,025	328,993	327,367	(1,626)
Operation and maintenance	1,106,267	1,167,520	1,165,649	(1,871)
Pupil transportation	845,972	872,619	870,834	(1,785)
Central services	606,021	717,053	724,103	7,050
	5,641,457	5,831,151	5,870,426	39,275
Community services	180,948	141,502	134,052	(7,450)
Total expenditures	13,904,451	14,172,984	14,603,850	430,866
Revenues over (under) expenditures	155,201	54,331	(454,757)	(509,088)
Other financing sources (uses)				
Transfers in	6,000	15,000	20,557	5,557
Transfers out	(64,684)	(64,684)	(64,684)	-
Total other financing sources (uses)	(58,684)	(49,684)	(44,127)	5,557
Net change in fund balance	96,517	4,647	(498,884)	(503,531)
Fund balance, beginning of year	864,798	864,798	864,798	-
Fund balance, end of year	$ 961,315	$ 869,445	$ 365,914	$ (503,531)

The accompanying notes are an integral part of these basic financial statements.

HOUGHTON LAKE COMMUNITY SCHOOLS

Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2019

	Agency Funds
Assets	
Cash and cash equivalents	$ 102,322
Liabilities	
Deposits held for others	$ 102,322

The accompanying notes are an integral part of these basic financial statements.

NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Houghton Lake Community Schools (the "District") has followed the guidelines of the Governmental Accounting Standards Board and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include entities for which the District is considered to be financially accountable.

Government-wide and Fund 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 non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities,* which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities,* which rely to a significant extent on fees and charges for services. The District had no *business-type activities* during the year ended June 30, 2019.

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major governmental funds are reported as a separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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.

Property taxes, intergovernmental revenues, 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. All other revenue items are considered to be measurable and available only when cash is received by the District.

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 accounted for and reported in another fund.

The *Qualified Zone Academy Bond (QZAB) debt service fund* accounts for the resources to provide for the payments required on the QZAB bonds.

Additionally, the District reports the following fund types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources that are restricted for food service.

The *debt service fund* is used to account for all financial resources restricted, committed or assigned to expenditure of principal and interest.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

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

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

Deposits and Investments

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.

Investments, if any, for the District are reported at fair value.

Michigan law authorizes the District to deposit and invest in:

a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.

b. Certificates of deposits issued by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

d. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.

f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non current portion of interfund loans).

Amounts due from other governments include State Aid and amounts due from grantors for specific programs. State Aid payments to be received by the District in July and August are recorded as a receivable and revenue of the previous fiscal year. Program grants are recorded as receivables and revenues at the time reimbursable project costs are incurred.

Inventories and Prepaids

All inventories are valued at cost using the first-in/first out ("FIFO") method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaids in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column 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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	50
Site improvements	20
Machinery and equipment	5-15
Transportation equipment	8

Deferred Outflows of Resources

In addition to assets, the statement of financial 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 one or more future periods and will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows of resources related to its pension and OPEB plans as well as for the deferred loss on refunding. A deferred refunding loss 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. The District also reports deferred outflows of resources related to the net pension and OPEB liabilities. A portion of this balance represents contributions to the plan subsequent to the pension and OPEB liabilities measurement date.

Salaries Payable and Accrued Employee Benefits

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

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded for the months of July and August. The District pays these benefits for this period as a part of the compensation for services rendered in the proceeding school year.

Compensated Absences

It is the District’s policy to permit employees to accumulate various earned but unused sick pay benefits. These are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Benefits are accrued based on various contract stipulations and lengths of service for the various bargaining units. In addition, the District’s teacher’s bargaining units are entitled to severance payouts upon separation from the District.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial 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 one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arise only under a modified accrual basis of accounting, from revenues that were not collected within 60 days. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District also reports deferred inflows of resources related to pension and other postemployment benefit costs.

Long-term Obligations

In the government-wide financial statements, long term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as expense when 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.

Fund Equity

In the fund financial statements, governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. Such commitments are intended to insulate the District programs and current service levels from large and unanticipated one-time general fund expenditure requirements, adverse judgments, catastrophic losses, emergency replacements, or any other similar unforeseen events. The District reports assigned fund balance for amounts that are constrained by the District’s intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education has delegated the authority to assign fund balance to the District's Superintendent. Unassigned fund balance is the residual classification for the general fund.

When the District incurs an expenditure for purposes for which various fund balance classifications can be used, it is the District's policy to use restricted fund balance first, then committed, assigned, and finally unassigned.

Notes to Financial Statements

Pensions and Other Postemployment Benefits

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. STATE OF MICHIGAN SCHOOL AID

The District reports State of Michigan school aid in the fiscal year in which the District is entitled to the revenue as provided by State of Michigan school aid appropriation acts. State funding, which includes State Aid and restricted grants, represented 33% of the District's general fund revenue during the 2019 fiscal year.

3. BUDGETARY INFORMATION

The general and special revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles ("GAAP"), which is the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the general and special revenue funds are adopted on a functional basis and all annual appropriations lapse at fiscal year-end.

For the year ended June 30, 2019, the District incurred expenditures in excess of amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General Fund			
Current:			
Instruction:			
Basic programs	$ 6,199,878	$ 6,628,843	$ 428,965
Supporting services:			
General administration	322,294	374,727	52,433
Central services	717,053	724,103	7,050

4. DEPOSITS AND INVESTMENTS

Following is a reconciliation of cash and cash equivalents and investments as shown on the Statement of Net Position and Statement of Fiduciary Assets and Liabilities as of June 30, 2019:

Statement of Net Position	
Cash and cash equivalents	$ 1,255,929
Investments	917,969
	2,173,898
Statement of Fiduciary Assets and Liabilities	
Cash and cash equivalents	102,322
Total	$ 2,276,220
Deposits	$ 953,346
Investments	1,322,558
Cash on hand	316
Total	$ 2,276,220

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

Investment Type	Fair Value / Amortized Cost	Weighted average maturity (years)	Standard & Poor's rating	%
U.S. Government securities	$ 917,969	0.4689	AA+	69.41%
MILAF External Investment pool - MIMAX	404,589	0.0027	AAAm	30.59%
	$ 1,322,558			100.00%

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

MILAF funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

Deposit and Investment Risk

Custodial credit risk - deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year-end, $714,328 of the District's bank balance of $1,066,766 was exposed to credit risk because it was uninsured and uncollateralized.

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. All repurchase securities are held by the investment's counterparty (Chemical Bank), not in the name of the District. The District will minimize custodial credit risk by limiting investments to the types of securities allowed by law and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business. The District's investments are not exposed to custodial credit risk since the securities are held by a counterparty in the name of the District.

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the below list of authorized investments. In accordance with the District's investment policy, the District will minimize interest rate risk 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. The District's investment policy does not have specific limits in excess of state law on investment credit risk which limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk.

Fair Value Measurement

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observables inputs; Level 3 inputs are significant unobservable inputs. The District's U.S. Government securities are considered to be Level 2.

Notes to Financial Statements

5. RECEIVABLES

The District's receivables at year-end consist of the following:

	General Fund		Nonmajor Governmental Funds		Total
Fund financial statements:					
Accounts receivable	$ 24,574	$	-	$	24,574
Due from the ISD	115,695		-		115,695
Due from other governments	1,476,898		38,350		1,515,248
	$ 1,617,167	$	38,350	$	1,655,517

The District was part of a settlement agreement with C.O.O.R ISD ("ISD") which will pay the District $334,578 over a period of five years commencing in fiscal year 2017. The District will receive annual installments of $55,838 with a final payment due in fiscal year 2021 of $59,857. The settlement includes a clause that full annual payments may not be made if the special education/insurance fund balance of the ISD would fall below 20% as calculated by end of year fund balance divided by that year's revenue in the fund. In this case, the settlement term would be extended beyond the initial five year term.

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The receivable noted above from the C.O.O.R. ISD has been deferred at the fund level because it is not expected to be collected within the next year. All governmental funds and governmental activities defer revenue recognition in connection with resources that have been received, but not earned. The District reports unearned revenue for grants received prior to the allowable expenditures occurring.

Notes to Financial Statements

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities				
Capital assets being depreciated:				
Site improvements	$ 1,962,111	$ -	$ (122,016)	$ 1,840,095
Buildings and improvements	14,541,358	-	-	14,541,358
Machinery and equipment	2,797,917	41,751	(34,136)	2,805,532
Transportation equipment	1,570,549	-	(124,826)	1,445,723
	20,871,935	41,751	(280,978)	20,632,708
Less accumulated depreciation for:				
Site improvements	(800,616)	(91,301)	122,016	(769,901)
Buildings and improvements	(10,386,853)	(139,742)	-	(10,526,595)
Machinery and equipment	(1,355,564)	(214,193)	34,136	(1,535,621)
Transportation equipment	(966,074)	(154,678)	124,826	(995,926)
	(13,509,107)	(599,914)	280,978	(13,828,043)
Capital assets being depreciated, net	7,362,828	(558,163)	-	6,804,665
Governmental activities capital assets, net	$ 7,362,828	$ (558,163)	$ -	$ 6,804,665

Depreciation expense was charged to functions / programs as follows:

Governmental activities:	
Instruction	$ 259,751
Support services	53,693
Unallocated	286,470
	$ 599,914

Original cost of land is not determinable and is recorded at zero.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2019 are as follows:

	Governmental Activities
Accounts payable	$ 216,782
Salaries payable	1,267,795
Accrued interest payable	21,525
	$ 1,506,102

Notes to Financial Statements

8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The District often reports interfund balances between many of its funds. These interfund balances result primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

At June 30, 2019, interfund receivables and payables in the fund financial statements consisted of the following:

	Due from Other Funds	Due to Other Funds
General fund	$ 86,156	$ 268,312
Nonmajor governmental funds	252,472	70,316
	$ 338,628	$ 338,628

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2019, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General fund	$ 20,557	$ 64,684
QZAB debt service fund	64,684	-
Nonmajor governmental funds	-	20,557
	$ 85,241	$ 85,241

For the year ended June 30, 2019, the District transferred funds from the general fund to the QZAB debt service fund for debt service set aside payments. The food service special revenue fund transferred funds to the general fund to pay for indirect costs incurred in the general fund.

Notes to Financial Statements

9. LONG-TERM DEBT

The following is a summary of general obligation bonds, QZAB bonds, bond premium, termination benefits, and compensated absence transactions of the District for the year ended June 30, 2019:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	$ 4,400,000	$ -	$ (390,000)	$ 4,010,000	$ 395,000
QZAB bonds	1,000,000	-	-	1,000,000	-
Subtotal	5,400,000	-	(390,000)	5,010,000	395,000
Bond premium	215,593	-	(21,559)	194,034	21,559
Termination benefits	31,361	-	(8,250)	23,111	2,311
Compensated absences	358,760	-	(60,357)	298,403	35,743
	$ 6,005,714	$ -	$ (480,166)	$ 5,525,548	$ 454,613

Compensated absences and termination benefits are generally liquidated by the general fund.

Bonds payable at June 30, 2019, are comprised of the following:

$4,515,000 2017 partial refunding bonds; due in annual installments ranging from $390,000 to $500,000 through May 1, 2028; interest at 2.00% to 4.00%.	$ 4,010,000
$1,000,000 2005 School Building Bond issued under the Qualified Zone Academy Bond (QZAB) program; due in one installment on June 21, 2021; interest reduced to 1.00% through a tax credit, a set-aside amount of $64,684 is required each year, interest of 2.75% will be earned on the set-aside account.	1,000,000
	$ 5,010,000

Annual debt service requirements to maturity for bonds are as follows:

Year Ended June 30,	Principal	Interest	Total
2020	$ 395,000	$ 131,350	$ 526,350
2021	1,405,000	123,450	1,528,450
2022	420,000	101,300	521,300
2023	430,000	88,700	518,700
2024	445,000	75,800	520,800
2025-2028	1,915,000	165,650	2,080,650
	$ 5,010,000	$ 686,250	$ 5,696,250

Notes to Financial Statements

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2019, $4,240,000 of bonds outstanding are considered defeased.

10. STATE AID NOTE

On August 21, 2018, the District received funding through a state aid note in the amount of $3,000,000 with 2.19% interest which matured on March 1, 2019. Proceeds of the note were used to fund school operations. The District paid the outstanding balance as of the maturity date resulting in no outstanding principal as of June 30, 2019.

Subsequent to year-end, the District approved the borrowing of a state aid note in the amount of $3,000,000 with 2.19% interest maturing on March 2, 2020.

11. COMMITMENTS AND CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, management does not believe such disallowances, if any, will be material to the financial position of the District.

As in the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. It is the opinion of the District's legal counsel that no potential claims or legal proceedings exist that could have a material effect on the financial condition of the District exist.

12. RISK MANAGEMENT

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

13. PROPERTY TAXES

Property taxes are assessed as of December 31 each year and attach as an enforceable lien on property as of the following July 1. School property taxes are levied on December 1 each year, based on the previous year's assessment, by Township governments whose boundaries include property within the District, and are due by February 28. Delinquent real taxes are advanced to the District by the Counties involved. Taxes are recorded as revenue in the year levied. Tax revenue is recorded for property taxes collected within 60 days of year-end, if any.

14. PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS

Plan Description

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

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

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

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

Pension Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Participants in the defined contribution plan consist of one of the following: (1) members who worked for a Michigan public school on or after September 4, 2012 and elected to be enrolled in the defined contribution plan; (2) members who elected to transfer from the defined benefit plan to the defined contribution plan under the reform (P.A. 300) of 2012; or (3) members who worked for a Michigan public school on or after February 1, 2018 and did not elect participation in the Pension Plus 2 plan. Members who worked for a Michigan public school on or after September 4, 2012 and elected to be enrolled in the defined contribution plan receive a 100% match of the member contribution rate up to a maximum of 3% based on the member's gross earnings. Additionally, there is a mandatory employer contribution of 4% of the member's gross earnings for MPSERS members who elected to convert from a Basic or MIP benefit plan to the defined contribution benefit plan. Members electing the Pension Plus or Pension Plus 2 benefit plan receive a 50% match of the member's contribution percent up to a maximum of 1% based on the member's gross earnings. Effective October 1, 2017, there is a mandatory employer contribution of 4% of the member's gross earnings for members who elect the Defined Contribution benefit plan. The employer must match 100% of the employee contribution for any member who elected the Personal Healthcare Fund up to a maximum of 2% of the member's gross earnings. For all members with a Personal Health Care Fund (PHF), the first 2% of DC contributions must go into the PHF and must be matched 100% by the employer.

Other Postemployment Benefits Provided

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

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

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

Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2017 valuation will be amortized over a 21-year period beginning October 1, 2017 and ending September 30, 2038.

The table below summarizes pension contribution rates in effect for fiscal year 2019:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	17.89% - 18.25%
Member Investment Plan (MIP)	3.00% - 7.00%	17.89% - 18.25%
Pension Plus	3.00% - 6.40%	16.46% - 16.61%
Pension Plus 2	6.20%	19.59% - 19.74%
Defined Contribution	0.00%	13.39% - 13.54%

For the year ended June 30, 2019, required and actual contributions from the District to the pension plan were $2,144,733, which included $957,499, the amount received from the State and remitted to the System to fund the MPSERS unfunded actuarial accrued liability ("UAAL") stabilization rate.

The table below summarizes OPEB contribution rates in effect for fiscal year 2019:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	7.67% - 7.93%
Personal Healthcare Fund (PHF)	0.00%	7.42% - 7.57%

For the year ended June 30, 2019, required and actual contributions from the District to the OPEB plan were $542,754.

The table below summarizes defined contribution rates in effect for fiscal year 2019:

Benefit Structure	Member Rates	Employer Rates
Defined Contribution	0.00% - 3.00%	0.00% - 7.00%
Personal Healthcare Fund (PHF)	0.00% - 2.00%	0.00% - 2.00%

For the year ended June 30, 2019, required and actual contributions from the District for those members with a defined contribution benefit were $29,805.

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

At June 30, 2019, the District reported a liability of $26,216,455 for its proportionate share of the MPSERS 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 rolled forward from September 2017. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2018, the District's proportion was 0.08721%, which was a decrease of 0.00062% from its proportion measured as of September 30, 2017.

For the year ended June 30, 2019, the District recognized pension expense of $3,567,226. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	$ 121,649	$ 190,510	$ (68,861)
Changes in assumptions	6,071,709	-	6,071,709
Net difference between projected and actual earnings on pension plan investments	-	1,792,539	(1,792,539)
Changes in proportion and differences between employer contributions and proportionate share of contributions	640,455	234,643	405,812
	6,833,813	2,217,692	4,616,121
District contributions subsequent to the measurement date	1,978,601	-	1,978,601
Total	$ 8,812,414	$ 2,217,692	$ 6,594,722

The $1,978,601 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. 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 June 30,	Amount
2020	$ 1,982,981
2021	1,435,261
2022	874,041
2023	323,838
Total	$ 4,616,121

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

At June 30, 2019, the District reported a liability of $6,882,097 for its proportionate share of the MPSERS 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 rolled forward from September 2017. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2018, the District's proportion was 0.08658% which was a decrease of 0.00135% from its proportion measured as of September 30, 2017.

For the year ended June 30, 2019, the District recognized OPEB expense of $306,177. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	$ -	$ 1,280,935	$ (1,280,935)
Changes in assumptions	728,818	-	728,818
Net difference between projected and actual earnings on OPEB plan investments	-	264,495	(264,495)
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,002	138,308	(137,306)
	729,820	1,683,738	(953,918)
District contributions subsequent to the measurement date	465,687	-	465,687
Total	$ 1,195,507	$ 1,683,738	$ (488,231)

Notes to Financial Statements

The $465,687 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2020	$ (231,437)
2021	(231,437)
2022	(231,437)
2023	(177,610)
2024	(81,997)
Total	$ (953,918)

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension and OPEB liabilities in the September 30, 2017 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	2.75%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	7.05%
Pension Plus plan (hybrid)	7.00%
Pension Plus 2 plan (hybrid)	6.00%
OPEB plans	7.15%
Projected salary increases	2.75% - 11.55%, including wage inflation at 2.75%
Cost of living adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	7.5% Year 1 graded to 3.0% Year 12
Mortality	RP-2014 Male and Female Healthy Annuitant Mortality Tables, adjusted for mortality improvements using projection scale MP-2017 from 2006. For retirees, the tables were scaled by 82% for males and 78% for females. For active members, 100% of the table rates were used for both males and females
Other OPEB assumptions:	
Opt-out assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt-out of the retiree health plan
Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
Coverage election at retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.5304 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.6018 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

Long-term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.70%	1.60%
Alternative investment pools	18.00%	9.20%	1.66%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.50%	0.05%
Real estate and infrastructure pools	10.00%	3.90%	0.39%
Absolute return pools	15.50%	5.20%	0.81%
Short-term investment pools	2.00%	0.00%	0.00%
	100.00%		5.66%
Inflation			2.30%
Risk adjustment			-0.91%
Investment rate of return			7.05%

Long-term Expected Return on OPEB Plan Assets

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.70%	1.60%
Private equity pools	18.00%	9.20%	1.66%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.50%	0.05%
Real estate and infrastructure pools	10.00%	3.90%	0.39%
Absolute return pools	15.50%	5.20%	0.81%
Short-term investment pools	2.00%	0.00%	0.00%
	100.00%		5.66%
Inflation			2.30%
Risk adjustment			-0.81%
Investment rate of return			7.15%

Discount Rate

A discount rate of 7.05% was used to measure the total pension liability (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan, both of which are hybrid plans provided through non-university employers only) and a 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 pension and OPEB plan investments of 7.05% (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan) and 7.15%, respectively. The projection of cash flows used to determine these discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension and OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.05% (7.00% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

	1% Decrease (6.05% / 6.00% / 5.00%)	Current Discount Rate (7.05% / 7.00% / 6.00%)	1% Increase (8.05% / 8.00% / 7.00%)
District's proportionate share of the net pension liability	$ 34,420,181	$ 26,216,455	$ 19,400,493

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

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 7.15%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net OPEB liability	$ 8,261,817	$ 6,882,097	$ 5,721,583

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

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

	1% Decrease (6.50%)	Current Healthcare Cost Trend Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net OPEB liability	$ 5,660,449	$ 6,882,097	$ 8,283,576

Pension and OPEB Plans Fiduciary Net Position

Detailed information about the pension and OPEB plan's fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at www.michigan.gov/orsschools.

Payable to the Pension Plan

At June 30, 2019, the District reported a payable of $316,837 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2019.

Payable to the OPEB Plan

At June 30, 2019, the District reported a payable of $57,837 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2019.

15. FUND BALANCE - GOVERNMENTAL FUNDS

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* the District classifies fund balances based primarily on the extent to which it is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is as follows:

	General Fund	QZAB Debt Service Fund	Nonmajor Governmental Funds	Total
Nonspendable:				
Inventories	$ 121,720	$ -	$ 11,231	$ 132,951
Prepaids	29,953	-	72,000	101,953
Total nonspendable	151,673	-	83,231	234,904
Restricted for:				
Debt service	-	917,969	198,801	1,116,770
Food service	-	-	125,835	125,835
Total restricted	-	917,969	324,636	1,242,605
Committed for:				
Forestry contract classroom project	5,479	-	-	5,479
Assigned for:				
Subsequent year's budget	108,534	-	-	108,534
Compensated absences and termination benefits	100,228	-	-	100,228
Total assigned	208,762	-	-	208,762
Total fund balances - governmental funds	$ 365,914	$ 917,969	$ 407,867	$ 1,691,750

Notes to Financial Statements

16. NET INVESTMENT IN CAPITAL ASSETS

The composition of the District's net investment in capital assets as of June 30, 2019, was as follows:

	Governmental Activities
Capital assets:	
Being depreciated, net	$ 6,804,665
Related debt:	
Bonds payable	5,010,000
Bond premium	194,034
Deferred loss	(109,850)
Total related debt	5,094,184
Net investment in capital assets	$ 1,710,481

17. RESTATEMENT

Beginning net position for governmental activities and fund balance in the general fund was decreased by $944,760 to properly state prepaids for the prior year. The impact on the June 30, 2018 statement of revenues expenditures and changes in fund balance would have been an increase in expenditures of $944,760.

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REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,				
	2019	2018	2017	2016	2015
District's proportionate share of the net pension liability	$ 26,216,455	$ 22,759,611	$ 21,407,815	$ 19,979,985	$ 17,832,362
District's proportion of the net pension liability	0.08721%	0.08783%	0.08581%	0.08180%	0.08096%
District's covered payroll	$ 7,392,020	$ 7,283,577	$ 7,406,904	$ 6,822,821	$ 6,840,439
District's proportionate share of the net pension liability as a percentage of its covered payroll	354.66%	312.48%	289.03%	292.84%	260.69%
Plan fiduciary net position as a percentage of the total pension liability	62.36%	64.21%	63.27%	63.17%	66.20%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Schedule of the District's Pension Contributions

	Year Ended June 30,				
	2019	2018	2017	2016	2015
Statutorily required contribution	$ 2,144,733	$ 2,102,459	$ 1,973,644	$ 1,809,685	$ 1,492,289
Contributions in relation to the statutorily required contribution	(2,144,733)	(2,102,459)	(1,973,644)	(1,809,685)	(1,492,289)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District's covered payroll	$ 7,270,107	$ 7,372,709	$ 7,240,173	$ 7,143,586	$ 6,688,782
Contributions as a percentage of covered payroll	29.50%	28.52%	27.26%	25.33%	22.31%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Required Supplementary Information
MPSERS Cost-Sharing Multiple-Employer Plan

Schedule of the District's Proportionate Share of the Net Other Postemployment Benefit Liability

	Year Ended June 30, 2019	Year Ended June 30, 2018
District's proportion of the net OPEB liability	$ 6,882,097	$ 7,786,824
District's proportionate share of the net OPEB liability	0.08658%	0.08793%
District's covered payroll	$ 7,392,020	$ 7,283,577
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	93.10%	106.91%
Plan fiduciary net position as a percentage of the total OPEB liability	42.95%	36.39%

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Schedule of the District's Other Postemployment Benefit Contributions

	Year Ended June 30, 2019	Year Ended June 30, 2018
Statutorily required contribution	$ 542,754	$ 554,930
Contributions in relation to the statutorily required contribution	(542,754)	(554,930)
Contribution deficiency (excess)	$ -	$ -
District's covered payroll	$ 7,270,107	$ 7,372,709
Contributions as a percentage of covered payroll	7.47%	7.53%

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

HOUGHTON LAKE COMMUNITY SCHOOLS

Combining Balance Sheet

Nonmajor Governmental Funds
June 30, 2019

	Special Revenue	Debt Service	
	Food Service	2017 Refunding Bonds	Totals
Assets			
Cash and cash equivalents	$ 62,327	$ 163,711	$ 226,038
Due from other governments	38,350	-	38,350
Due from other funds	217,382	35,090	252,472
Inventories	11,231	-	11,231
Prepaids	72,000	-	72,000
Total assets	$ 401,290	$ 198,801	$ 600,091
Liabilities			
Accounts payable	$ 121,908	$ -	$ 121,908
Due to other funds	70,316	-	70,316
Total liabilities	192,224	-	192,224
Fund balances			
Nonspendable	83,231	-	83,231
Restricted	125,835	198,801	324,636
Total fund balances	209,066	198,801	407,867
Total liabilities and fund balances	$ 401,290	$ 198,801	$ 600,091

HOUGHTON LAKE COMMUNITY SCHOOLS

Combining Statement of Revenues, Expenditures

and Changes in Fund Balances - Nonmajor Governmental Funds
For the Year Ended June 30, 2019

	Special Revenue	Debt Service	
	Food Service	**2017 Refunding Bonds**	**Totals**
Revenues			
Local sources:			
Taxes	$ -	$ 622,405	$ 622,405
Food service	67,027	-	67,027
Interest	1,522	-	1,522
State sources	29,943	-	29,943
Federal sources	739,991	-	739,991
Total revenues	838,483	622,405	1,460,888
Expenditures			
Current:			
Food service activities	830,667	-	830,667
Debt service:			
Principal	-	390,000	390,000
Interest and fiscal charges	-	129,649	129,649
Capital outlay	3,525	-	3,525
Total expenditures	834,192	519,649	1,353,841
Revenues over expenditures	4,291	102,756	107,047
Other financing sources (uses)			
Transfers out	(20,557)	-	(20,557)
Net change in fund balances	(16,266)	102,756	86,490
Fund balances, beginning of year	225,332	96,045	321,377
Fund balances, end of year	$ 209,066	$ 198,801	$ 407,867

SUPPLEMENTAL INFORMATION

Schedule of Outstanding Bonded Indebtedness

QZAB Bonds
June 30, 2019

Date of Issue - June 21, 2005

Original amount of issue - $1,000,000

Purpose of issue - To finance renovations and improvements to school properties

Interest Rate	Year Ended June 30,	Annual Interest Payments June	Annual Maturity June	Total Fiscal Year Requirements
1.00%	2020	$ 10,000	$ -	$ 10,000
1.00%	2021	10,000	1,000,000	1,010,000
		$ 20,000	$ 1,000,000	$ 1,020,000

The District is required to make annual sinking fund deposits of $54,684 until maturity at which time these deposits will repay the entire bond.

Schedule of Outstanding Bonded Indebtedness
2017 Refunding Bonds
June 30, 2019

Date of Issue - March 17, 2017

Original amount of issue - $4,515,000

Purpose of issue - To refund a portion of the 2008 Building and Site bonds.

Interest Rate	Year Ended June 30,	Semi-Annual Interest Payments November 1	Semi-Annual Interest Payments May 1	Annual Maturity May 1	Total Fiscal Year Requirements
2.00%	2020	$ 60,675	$ 60,675	$ 395,000	$ 516,350
3.00%	2021	56,725	56,725	405,000	518,450
3.00%	2022	50,650	50,650	420,000	521,300
3.00%	2023	44,350	44,350	430,000	518,700
3.00%	2024	37,900	37,900	445,000	520,800
3.00%	2025	31,225	31,225	460,000	522,450
3.00%	2026	24,325	24,325	470,000	518,650
3.00%	2027	17,275	17,275	485,000	519,550
4.00%	2028	10,000	10,000	500,000	520,000
		$ 333,125	$ 333,125	$ 4,010,000	$ 4,676,250

SINGLE AUDIT ACT COMPLIANCE

Rehmann

Rehmann Robson

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

October 31, 2019

Board of Education
Houghton Lake Community Schools
Houghton Lake, Michigan

We have audited the financial statements of the governmental activities, the general fund, each major fund, and the aggregate remaining fund information of *Houghton Lake Community Schools* (the "District") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 31, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Rehmann Robson LLC

HOUGHTON LAKE COMMUNITY SCHOOLS

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount	Expenditures (Memo Only) Prior Year(s)
U.S. Department of Agriculture					
Child Nutrition Cluster:					
Non-cash assistance (commodities):					
National School Lunch - entitlement	10.555	MDE	N/A	$ 55,198	$ 52,506
Cash assistance:					
National School Lunch Program:					
Section 11	10.555	MDE	181960	399,099	399,099
Section 11	10.555	MDE	181980	1,774	
Section 11	10.555	MDE	191960	515,271	-
Section 11	10.555	MDE	191980	17,651	
School Breakfast Program:					
School Breakfast	10.553	MDE	181970	138,316	138,316
School Breakfast	10.553	MDE	191970	187,408	-
Summer Food Service Program (SFSP)	10.559	MDE	180900-1118	681	-
Summer Food Service Program (SFSP)	10.559	MDE	181900-1118	70	-
Summer Food Service Program (SFSP)	10.559	MDE	190900-519	507	-
Summer Food Service Program (SFSP)	10.559	MDE	191900-519	53	-
Total U.S. Department of Agriculture					
U.S. Department of Education					
Title I, Part A - Carryover	84.010	MDE	181530-1718	804,913	804,913
Title I, Part A - Regular	84.010	MDE	191530-1819	695,198	-
Title II, Part A - Regular	84.367	MDE	180520-1718	128,297	123,854
Title II, Part A - Regular	84.367	MDE	190520-1819	153,982	-
Title IV, Part A - Regular	84.424	MDE	180750-1718	10,000	7,040
Title IV, Part A - Regular	84.424	MDE	190750-1819	56,968	-
Title VIB	84.358B	MDE	180660-1718	23,686	21,217
Title VIB	84.358B	MDE	190660-1819	26,154	-
Special Education Cluster (IDEA):					
IDEA Special Education Grants	84.027A	COORISD	180450-1718	469,924	469,921
IDEA Special Education Grants	84.027A	COORISD	190450-1819	436,327	-
Adult Basic Education	84.002	MDE	181130-181777	66,101	66,101
Adult Basic Education	84.002	MDE	191130-191777	66,500	-
Adult Basic Education	84.002	MDE	181190-181777	15,000	13,711
Adult Basic Education	84.002	MDE	191190-191777	15,000	-
Total U.S. Department of Education					
US Department of Health and Human Services					
Safe Schools. Health Students Schools	93.243	MDE	172704	387,454	365,360
Total Federal Financial Assistance					

See notes to schedule of expenditures of federal awards.

Accrued Revenue at June 30, 2018	Current Year Cash Received	Expenditures Year Ended June 30, 2019	Accrued Revenue at June 30, 2019
$ -	$ 55,198	$ 55,198	$ -
13,726	48,928	35,202	-
-	1,429	1,429	-
-	422,662	446,534	23,872
-	16,923	17,651	728
13,726	489,942	500,816	24,600
4,742	17,139	12,397	-
-	161,874	170,269	8,395
4,742	179,013	182,666	8,395
-	681	681	-
-	70	70	-
-	507	507	-
-	53	53	-
-	1,311	1,311	-
18,468	725,464	739,991	32,995
219,511	219,511	-	-
-	532,159	659,349	127,190
219,511	751,670	659,349	127,190
63,377	63,377	-	-
-	69,391	98,381	28,990
63,377	132,768	98,381	28,990
1,572	1,572	-	-
-	35,853	42,500	6,647
1,572	37,425	42,500	6,647
-	-	2,469	2,469
-	8,933	18,510	9,577
-	8,933	20,979	12,046
113,670	113,670	-	-
-	155,850	436,327	280,477
113,670	269,520	436,327	280,477
21,415	21,415	-	-
-	39,202	53,022	13,820
7,007	7,007	-	-
-	9,551	10,138	587
28,422	77,175	63,160	14,407
426,552	1,277,491	1,320,696	469,757
94,815	94,815	-	-
$ 539,835	$ 2,097,770	$ 2,060,687	$ 502,752

Notes to Schedule of Expenditures of Federal Awards

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of *Houghton Lake Community Schools* (the "District") 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 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 the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

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

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

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

2. DE MINIMIS COST RATE

For purposes of charging indirect costs to federal awards, the District has not elected to use the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

3. PASS-THROUGH AGENCIES

The District receives certain federal grants as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

MDE	Michigan Department of Education
COORISD	Crawford Oscoda Ogemaw Roscommon Intermediate School District

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

October 31, 2019

Board of Education
Houghton Lake Community Schools
Houghton Lake, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Houghton Lake Community Schools* (the "District"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 31, 2019.

Internal Control Over Financial Reporting

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

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-003 to be a significant deficiency.

Compliance and Other Matters

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

Houghton Lake Community School's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

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Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

October 31, 2019

Board of Education
Houghton Lake Community Schools
Houghton Lake, Michigan

Report on Compliance for Each Major Federal Program

We have audited the compliance of *Houghton Lake Community Schools* (the "District") with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the District's major federal programs for the year ended June 30, 2019. The District's 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Independent Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-004. Our opinion on each major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Management of the District 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 the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-004 that we consider to be a material weakness.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Purpose of this Report

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

Rehmann Robson LLC

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2019

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited prepared in accordance with GAAP:	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?	X	yes		no
Significant deficiency(ies) identified?	X	yes		none reported
Noncompliance material to financial statements noted?		yes	X	no

Federal Awards

Material weakness(es) identified?		yes	X	no
Significant deficiency(ies) identified?	X	yes		none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	X	yes		no

Identification of major programs and type of auditors' report issued on compliance for each major program:

CFDA Number	Name of Federal Program or Cluster	Type of Report
10.553, 10.555, 10.559	Child Nutrition Cluster	Unmodified
84.027A	Special Education Cluster (IDEA)	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000			
Auditee qualified as low-risk auditee?		yes	X	no

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding: 2019-001 - Material Audit Adjustments

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. During our audit, we identified and proposed several material adjustments to receivables, inventory, prepaids, capital assets, compensated absences, accrued liabilities, unearned revenue, internal balances, equity and expenses, impacting all opinion units, (which were approved and posted by management) to adjust the District's balances to appropriate year end balances, which included a restatement to prior year equity.

Cause. Internal controls did not detect all adjustments necessary to properly record or adjust balances at year end.

Effect. Initially the District's balances in the trial balance provided for the audit were materially misstated. However, appropriate adjustments were subsequently posted to reflect the correct balances in the audit report.

Recommendation. The necessary adjustments have been made in the accounting records and appropriately presented in the financial statements as a part of our audit procedures. However, we recommend the District closely review transactions near year end to ensure they are recorded in the correct period and perform year end reconciliations to identify any necessary adjustments prior to the audit.

View of Responsible Officials. The District has made significant adjustments to correct this deficiency by reviewing all processes and reorganizing the business office.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding: 2019-002 - Preparation of the Schedule of Expenditures of Federal Awards (SEFA)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. 2 CFR 200 Uniform Guidance §200.302, requires the District to "identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity." In addition, the District is required to "prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §200.510."

Condition. The District initially misreported the Federal expenditures reported on its SEFA related to all CFDA numbers.

Cause. This condition appears to be the result of inadequate internal controls over the preparation of the SEFA.

Effect. As a result of this condition, the expenditures reported on the District's SEFA were initially misstated by approximately $2 million.

Recommendation. We recommend that the District evaluate its processes for identifying federal awards included on the SEFA to ensure that all federal expenditures are properly included and amounts reported are accurate.

View of Responsible Officials. The District has made significant adjustments to correct this deficiency by changing accounting procedures, developing a process to reconcile accounting of the fund to the fund award.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding: 2019-003 - Limited Separation of Duties

Finding Type. Significant Deficiency in Internal Control over Financial Reporting.

Criteria. Management is responsible for establishing effective internal controls to safeguard the District's assets, and to prevent or detect misstatements to the financial statements. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the District's unique circumstances.

Condition. During our review of the cash receipting process, we noted the individual receiving the deposit, inputting the cash receipts in the accounting system, and making the physical deposits to the banks could potentially be done by the same individual. We further noted that the deposit slip does not show documentation of the individual taking the deposit to the bank. These functions should be separated and appropriate supporting documentation should include initials/signature of the individuals completing each control activity. Additionally, we noted the same individual has access to the blank unused check stock and is able to post cash disbursements in the accounting system.

Cause. This condition is a result of the District's turnover in staffing, limited resources, and the small size of its accounting staff.

Effect. As a result of this condition, the District is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely manner.

Recommendation. While there are no easy answers to the challenge of balancing the costs and benefits of internal control and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials. The District has made significant adjustments to correct this deficiency by changing procedures to make sure more than one person is involved in each process including cash receipts, cash disbursements and purchasing processes.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2019

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2019-004 – Allowable Costs/Cost Principles - Journal Entries

Finding Type. **Imm**aterial Noncompliance, Significant Deficiency in Internal Controls over Compliance

Program. Child Nutrition Cluster (CFDA# 10.553, 10.555 and 10.559); Passed through MDE; All project numbers

Criteria. Uniform Guidance requires the District to ensure all funds received are spent only for reasonable and necessary costs of the program. To determine whether these transactions were reasonable and necessary, the District must retain appropriate supporting documentation in its records.

Condition. During our testing of journal entries, the District could not provide supporting documentation for two out of the eleven journal entries selected.

Cause. This condition appears to have been caused by the District not following its process of retaining documentation.

Questioned Costs. No costs are required to be questioned as a result of this finding.

Effect. As a result of this condition, the District did not comply with the requirements over activities allowed and unallowed to ensure appropriate controls are in place to adequately maintain records and verify transactions are reasonable and necessary for the program.

Recommendation. We recommend that the District retain appropriate supporting documentation for all transactions.

View of Responsible Officials. The District has made significant adjustments to correct this deficiency by changing procedures to require a form for journal entries, which will include supporting documentation. Also, the process will require a sign off from the supervisor to complete a journal entry.

■ ■ ■ ■ ■

Summary Schedule of Prior Audit Findings

For the Year Ended June 30 ,2019

2018-001 Material Weakness

The prepaid expense account was unable to be audited. Inaccurate information created reconciling issues relating to the prepaid expense account and could not be substantiated due to significant system generated journal entries, business office turnover, and removal of system data. This finding was corrected in 2019 through a prior period adjustment.

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Independent Auditors' Communication with Those Charged with Governance

October 31, 2019

Board of Education
Houghton Lake Community Schools
Houghton Lake, MI

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Houghton Lake Community Schools* (the "District") as of and for the year ended June 30, 2019, and have issued our report thereon dated October 31, 2019. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated June 11, 2019, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated October 31, 2019. In addition, we noted certain other matters which are included in Attachment A to this letter.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on June 10, 2019.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the District's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements.

There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during the year.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

In addition, the financial statements include a net pension liability, a net other postemployment benefit liability, and other related amounts, which are dependent on estimates made by the plan. These estimates are based on historical trends and industry standards, but are not within the control of management.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The material misstatements detected as a result of audit procedures and corrected by management are described in the Schedule of Findings and Questioned Costs issued in connection with the Single Audit.

The schedule of adjustments passed is included with management's written representations in Attachment C to this letter, and summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in Attachment C to this letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, 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. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment B to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

This information is intended solely for the use of the governing body and management of **Houghton Lake Community Schools** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Rehmann Robson LLC

Attachment A - Comments and Recommendations

For the June 30, 2019 Audit

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. Our consideration of the District's internal control over financial reporting is described in our report, dated October 31, 2019, issued in accordance with *Government Auditing Standards.* This memorandum does not affect that report or our report dated October 31, 2019, on the financial statements of the Houghton Lake Community Schools.

Other Matters

Lack of Adherence to Procedures Manual

During our review of the procedures manual we noted the processes over disbursements and cash receipting as documented in the manual do not reflect the current procedures being performed. The procedures manual noted that only the Business Office Assistant should be receiving the mail and inputting checks into the accounting system, however, we noted there are other individuals who are also completing that process, as well as taking the deposits to the bank. Further, we noted that purchase orders are required to undergo a review process that is documented by sign-offs and all check registers are approved by the Board, however, the procedures manual does not include these steps in the cash disbursement process. We recommend that management review the procedures manual to ensure is reflects current procedures.

Documentation of Review

During our review of journal entries, we noted there was no documentation of preparer and reviewer for three out of the ten entries tested. We further noted through our review of credit card purchases and payroll reports that the preparation and review of these items are also not being documented. We recommend that independent review be completed for both journal entries, credit card purchases, and payroll reports and that documentation of preparation and review be retained as evidenced by initials or signature and date.

Capital Assets

During our review of capital assets, we noted management had not prepared a listing of all capital asset additions or disposals for the year. Management was not reviewing the capital asset detail listing during the year to determine if assets have been disposed of or if new assets should be added. We recommend that management review this listing periodically to determine if all the assets listed are still currently in use and listing is accurate and complete. We recommend that this information be available at the start of the audit process.

Lack of Information on Inventory Listing

We noted that the inventory listing did not include unit price or the number of units used to calculate the total cost. Additionally, the descriptions for the inventory items did not include appropriate documentation to be able to determine what the inventory item was. As we were unable to determine the reasonableness of the inventory balance at year-end due to the lack of information on the listing, this amount is included on the Schedule of Adjustments Passed which is attached to this letter. We recommend that management update the inventory listing to include the unit price, number of units, and a detailed description of the item.

Attachment A - Comments and Recommendations

For the June 30, 2019 Audit

Accuracy of Census Information

During our review of the new hires into the pension plan during the year, we noted five out of the six individuals selected had different hires dates in the ORS system compared to the hire dates in their personnel files. Further, during our review of the census data used to calculate the ending compensated absences liability, we noted two of the seven individuals selected had different hire dates compared to their personnel files. We recommend that management review all census data to ensure it is accurate and agrees to the information in the personnel files.

Covered Payroll and Pension Contributions

During our review of covered payroll and contributions into the pension plan, we noted that the pensionable wages and member and employer contributions for the defined benefit, defined contribution, and pension health fund plans from the ORS system did not agree to the related payroll reports for five out of the six payroll dates selected by insignificant amounts. We recommend that management review information submitted to ORS for the plans to ensure accuracy and to retain supporting documentation if amounts provided to ORS differ from the related payroll reports.

Bank Reconciliations

Three bank accounts did not have a year-end bank reconciliation prepared. We recommend that bank reconciliations be completed for all bank accounts and are completed within the State's requirement of six weeks after month-end.

Student Activities

During our review, we noted a lack of oversight regarding the student activity accounts. We recommend that management review its processes over all student activities to ensure appropriate approval is obtained and documented.

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Attachment B – Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2019 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the District in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the District. For the complete text of these and other GASB standards, visit www.gasb.org and click on the “Standards & Guidance” tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

GASB 84 ■ Fiduciary Activities

Effective 12/15/2019 (your FY 2020)

This standard establishes new criteria for determining how to report fiduciary activities in governmental financial statements. The focus is on whether the government is controlling the assets, and who the beneficiaries are. Under this revised standard, most school districts will not report any fiduciary funds in FY 2020, and will instead need to report student activity accounts in a budgeted special revenue fund.

GASB 87 ■ Leases

Effective 12/15/2020 (your FY 2021)

This standard establishes a single model for reporting all leases (including those previously classified as operating and capital). Lessees will now report offsetting intangible lease assets and lease liabilities equal to the present value of future lease payments. Lessors will report offsetting lease receivables and deferred inflows of resources.

GASB 89 ■ Accounting for Interest Cost Incurred before the End of a Construction Period

Effective 12/15/2020 (your FY 2021)

This standard eliminates the requirement for governments to capitalize interest during the construction period for business-type activities. As this simplifies the accounting for interest, early implementation is encouraged. We do not expect this standard to have any significant effect on the District.

GASB 90 ■ Majority Equity Interests

Effective 12/15/2019 (your FY 2020)

This standard addresses situations in which a government acquires a majority of the equity interest in a legally separate organization, and whether such holdings should be reported as an investment or a component unit. We do not expect this standard to have any significant effect on the District.

GASB 91 ■ Conduit Debt Obligations

Effective 12/15/2021 (your FY 2022)

This standard defines "conduit debt obligations", where a government issues debt whose proceeds are received and repaid by a third-party obligor without the issuer being primarily liable. The standard requires issuers to disclose conduit debt obligations, but not to record a liability unless it is more likely than not that a commitment made by the issuer will require it to support one or more debt payments for a conduit debt obligation. We do not expect this standard to have any significant effect on the District.

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HOUGHTON LAKE COMMUNITY SCHOOLS

Attachment C – Management Representations

For the June 30, 2019 Audit

The following pages contain the written representations that we requested from management.

Houghton Lake Community Schools
6001 West Houghton Lake Drive • Houghton Lake, Michigan 48629
Julie A. Brown, Superintendent
(989) 366-2031

October 31, 2019

Rehmann Robson
5800 Gratiot Road, Suite 201
Saginaw, Michigan 48638

This representation letter is provided in connection with your audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Houghton Lake Community Schools** as of and for the year ended June 30, 2019, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and the budgetary comparison for the General Fund of the District in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of October 31, 2019:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 11, 2019, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties

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mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.

7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
8. The effects of uncorrected misstatements summarized in the attached schedule and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.
9. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
10. With regard to items reported at fair value:
    a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
    b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
    c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
    d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
11. All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
12. All funds and activities are properly classified.
13. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
14. All components of net position and fund balance classifications have been properly reported.
15. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
16. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
17. All interfund and intra-entity transactions and balances have been properly classified and reported.
18. Special items and extraordinary items have been properly classified and reported.
19. Deposit and investment risks have been properly and fully disclosed.
20. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
21. All required supplementary information is measured and presented within the prescribed guidelines.

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22. We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.
23. We are responsible for the fair presentation of the District's proportionate share of the net pension liability of the Michigan Public School Employees Retirement System (MPSERS) and related amounts. We provided MPSERS with complete and accurate information regarding the District's participation in the plan, and have reviewed the information provided by MPSERS for inclusion in the District's financial statements.
24. In connection with the restatement of beginning fund balance/net position, the District has determined that the presentation of the restated amount in the current year financial statements is sufficient to inform financial statement users, and accordingly, no revised and reissued financial statements for fiscal year 2018 or any previous fiscal years are necessary. Also, the District has evaluated the underlying cause of this error and determined that it does not affect any other areas of the financial statements.

Information Provided

25. We have provided you with:
    a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
    b. Additional information that you have requested from us for the purpose of the audit; and
    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
26. All transactions have been recorded in the accounting records and are reflected in the financial statements.
27. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
28. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
    a. Management;
    b. Employees who have significant roles in internal control; or
    c. Others where the fraud could have a material effect on the financial statements.
29. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
30. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
31. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
32. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
33. The government has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

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34. We have disclosed to you all guarantees, whether written or oral, under which the government is contingently liable.
35. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
36. There are no:
    a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
    b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*
    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
37. The government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
38. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
39. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

Supplementary Information in Relation to the Financial Statements as a Whole

40. With respect to the supplementary information accompanying the financial statements:
    a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.
    b. We believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
    c. The methods of measurement or presentation have not changed from those used in the prior period.
    d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

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Required Supplementary Information

41. With respect to the required supplementary information accompanying the financial statements:
    a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
    b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
    c. The methods of measurement or presentation have not changed from those used in the prior period.
    d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

Uniform Guidance (2 CFR 200)

42. With respect to federal awards, we represent the following to you:
    a. We are responsible for understanding and complying with and have complied with the requirements of the Uniform Guidance.
    b. We are responsible for the preparation and presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance.
    c. We believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with the Uniform Guidance.
    d. The methods of measurement or presentation have not changed from those used in the prior period.
    e. We believe the significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.
    f. We are responsible for including the auditor's report on the schedule of expenditures of federal awards in any document that contains the schedule and that indicates that the auditor has reported on such information.
    g. When the schedule of expenditures of federal awards is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users of the schedule of expenditures of federal awards no later than the date of issuance by the entity of the schedule of expenditures of federal awards and the auditor's report thereon.
    h. We have, in accordance with the Uniform Guidance, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, food commodities, direct appropriations, and other assistance.
    i. We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have

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identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program; and we have complied, in all material respects, with these requirements.

j. We have provided to you our interpretations of any compliance requirements that have varying interpretations.

k. We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to federal programs that provide reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies, including material weaknesses, reported in the schedule of findings and questioned costs.

l. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to federal programs.

m. We have received no requests from a federal agency to audit one or more specific programs as a major program.

n. We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews. We also know of no instances of noncompliance occurring subsequent to the end of the period audited.

o. We have charged costs to federal awards in accordance with applicable cost principles, including amounts claimed or used for matching determined in accordance with relevant guidelines in the Uniform Guidance.

p. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

q. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared (and are prepared on a basis consistent with the schedule of expenditures of federal awards).

r. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.

s. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

t. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.

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u. We are responsible for and have accurately completed the appropriate sections of the Data Collection Form as required by the Uniform Guidance, and we are responsible for preparing and implementing a correction action plan for each audit finding.
v. We have disclosed all contracts or other agreements with service organizations and disclosed to you all communications from these service organizations relating to noncompliance at the organizations.
w. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
x. We have disclosed to you the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.

Julie Brown

Julie Brown, Superintendent

Dana L Reilly

Dana Reilly, Pupil Data Specialist/Homeless Liaison

HOUGHTON LAKE COMMUNITY SCHOOLS

Schedule of Adjustments Passed (SOAP)

For the June 30, 2019 Audit

In accordance with generally accepted auditing standards, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. We are providing this schedule to both management and those charged with governance to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Equity	Revenues	Expenses/ Expenditures
Governmental activities					
General fund					
Potential overstatement of inventory	$ 121,720	$ -	$ -	$ -	$ (121,720)
Misstatement as a percentage of total assets - governmental activities	0.74%	0.00%	0.00%	0.00%	-0.74%