MESICK CONSOLIDATED SCHOOLS

REPORT ON FINANCIAL STATEMENTS

JUNE 30, 2019

Baird, Cotter & Bishop, P.C.
SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS
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MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2019

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August 9, 2019

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Mesick Consolidated Schools
Mesick, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mesick Consolidated Schools, Mesick, Michigan 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.

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information (as identified in the table of contents) on pages iii through x and 36-41 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 Mesick Consolidated Schools, Michigan's basic financial statements. The Combining Fund Financial Statements section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2019, on our consideration of Mesick Consolidated Schools, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Mesick Consolidated Schools internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mesick Consolidated Schools, Michigan's internal control over financial reporting and compliance.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2019

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

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements consist of the following three components: the government-wide financial statements, fund financial statements, and the notes to basic financial statements.

Financial Highlights Section

Government-Wide

- The liabilities and deferred inflows of resources of the District exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by $3,876,339 creating a deficit net position amount.

- The government's total net position decreased by $49,890.

Fund Level

- As the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $1,787,153, an increase of $186,506 in comparison with the prior year.

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $615,847.

A. Government-Wide Financial Statements

The government-wide statements provide short-term and long-term financial information about the District's overall financial status. These statements are required by generally accepted accounting principles (GAAP) as described in the Government Accounting Standards Board (GASB) Statement No. 34. The district-wide financial statements are compiled using full accrual basis of accounting and more closely represent financial statements presented by business and industry. The Statement of Net Position includes all of the District's assets and liabilities. All of the year's revenue and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

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

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

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

In the government-wide financial statements, the District's activities are all shown in one category titled "Governmental Activities". These activities, including regular and special education, transportation, administration, food services, athletic activities, and community services, are primarily financed with state and federal aids and property taxes.

B. Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds, rather than the District as a whole. Funds that do not meet the threshold to be classified as major funds are called "non-major" funds. Detailed financial information for non-major funds can be found in the combining and individual fund statements section.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District may establish other funds to control and manage money for particular purposes.

The District maintains the following kinds of funds:

***Governmental Funds* –** The District's basic services are included in governmental funds, which generally focus on 1) how cash and other financial assets that can be readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.

Fiduciary Funds – The District is a trustee, or fiduciary, for assets that belong to other organizations. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

The District maintains one type of fiduciary fund. The Agency fund reports resources held by the District in a custodial capacity for individuals, private organizations and other governments.

Notes to 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. The notes to the financial statements can be found on pages 8-35 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

C. Summary of Net Position

The following schedule summarizes the net position at fiscal year ended June 30.

	2019	2018
Assets		
Current Assets	$ 2,546,090	$ 2,407,235
Non Current Assets		
Capital Assets	12,085,912	11,919,218
Less Accumulated Depreciation	(5,549,707)	(5,229,058)
Total Non Current Assets	6,536,205	6,690,160
Total Assets	9,082,295	9,097,395
Deferred Outflows of Resources		
Deferred Outflows of Resources	3,889,036	2,217,676
Total Assets and Deferred Outflows of Resources	12,971,331	11,315,071
Liabilities		
Current Liabilities	840,418	888,611
Non Current Liabilities	13,801,246	13,201,642
Total Liabilities	14,641,664	14,090,253
Deferred Inflows of Resources		
Deferred Inflows of Resources Related to Pensions	2,206,006	1,051,267
Net Position		
Net Investment in Capital Assets	5,919,084	5,995,899
Restricted	252,000	252,000
Unrestricted (Deficit)	(10,047,423)	(10,074,348)
Total Net Position (Deficit)	$ (3,876,339)	$ (3,826,449)

D. Analysis of Financial Position

During the fiscal year ended June 30, 2019, the District's net position decreased by $49,890. A few of the more significant factors affecting net position during the year are discussed below:

1. Depreciation Expense

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

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2019, $320,649 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2019, $166,694 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of $153,955 for the fiscal year ended June 30, 2019. A decrease to net capital assets is a reduction in net position.

3. Pension Expense and Other Postemployment Benefits Expense

GASB 68 and 75 now requires the District to account for its payments to the Michigan Public School Employees' Retirement System in a manner that has a significant effect on the District's change in net position. Based on various factors, the District may report an increase or decrease in net position depending on whether the District's proportionate share of the net pension and OPEB liabilities increases or decreases in any given year.

E. Change in Net Position

The following schedule summarizes the results of operations, on a district-wide basis, for the year ended June 30.

	2019	2018
General Revenues		
Property Taxes	$ 1,259,735	$ 1,785,836
Investment Earnings	7,574	5,462
State Sources	3,963,941	3,649,647
Gain on Sale of Capital Assets	500	3,116
Other	20,391	38,935
Total General Revenues	5,252,141	5,482,996

	2019	2018
Program Revenues		
Charges for Services	125,643	142,489
Operating Grants and Contributions	1,908,576	1,929,133
Total Program Revenues	2,034,219	2,071,622
Total Revenues	7,286,360	7,554,618
Expenses		
Instruction	4,019,005	3,932,993
Supporting Services	2,441,850	2,246,739
Community Activities	2,545	2,457
Food Service	519,805	407,078
Building Improvement Services	3,140	2,380
Interest on Long-Term Debt	28,756	38,834
Other Transactions	500	250
Unallocated Depreciation	320,649	312,930
Total Expenses	7,336,250	6,943,661
Change in Net Position	$ (49,890)	$ 610,957

F. Financial Analysis of the District's Funds

The financial performance if the District as a whole is also reflected in its governmental funds. The following table shows the change in total fund balances of each of the District's governmental funds:

	2019	2018	Increase (Decrease)
Major Funds			
General Fund	$ 1,181,171	$ 1,031,660	$ 149,511
Capital Projects Fund	526,610	478,201	48,409
Nonmajor Funds			
Food Service	79,372	90,786	(11,414)
Total Governmental Funds	$ 1,787,153	$ 1,600,647	$ 186,506

In 2018-2019, the General Fund increase is primarily a result of revenue increases outpacing expenditure increases. $8,278 of the fund balance is nonspendable for prepaid expenditures, $142,055 is committed for compensated absences, $265,547 is committed for educational experience, and $149,144 is assigned for subsequent year budget shortfall. The remaining $615,847 is unassigned.

The Capital Projects Fund increase was due to a transfer from the general fund for future building repair needs. Of the balance, $252,000 is restricted for capital projects, the remaining $274,610 is committed for capital projects.

The Food Service Fund balance decreased by $11,414 during the year. The decrease is due to a sick day payout to a retiring employee. $1,825 of the fund balance is nonspendable for inventory, the remaining, $77,547 is restricted for food service.

G. General Fund Budgetary Highlights

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

For the 2018-2019 fiscal year, the District amended the general fund budget throughout the fiscal year. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES AND OTHER SOURCES	$ 6,375,666	$ 6,939,950	$ 6,872,986
EXPENDITURES AND OTHER USES			
Instruction	$ 4,027,263	$ 4,080,808	$ 4,047,841
Supporting Services	2,191,705	2,575,410	2,521,051
Community Activities	3,943	4,243	2,545
Debt Service	106,938	106,938	106,938
Transfers and Other Transactions	45,000	45,100	45,100
Total Expenditures and Other Uses	$ 6,374,849	$ 6,812,499	$ 6,723,475

The change between original budget and final budget revenues resulted from including all of the anticipated revenues from Highpoint Virtual Academy. The district does not include the excess in their original planning in an attempt to keep from relying on those funds. Actual revenues were similar to the final budget.

The change between original budget and final budget expenditures was mostly due to increasing heating fuel expense, adding a new school safety officer, and planning to use some of the Highpoint revenue for enhanced opportunities.

The actual expenditures are lower than the final budget due to actual expenses being less than anticipated.

H. Capital Asset and Debt Administration

1. Capital Assets

At June 30, 2019, the District had $6,536,205 (net of depreciation) in a broad range of capital assets, including school buildings and facilities and various types of equipment. This represents a net decrease of $154,955 over the prior fiscal year. Depreciation expense for the year amounted to $320,649, bringing the accumulated depreciation to $5,549,707 as of June 30, 2019.

The addition to capital assets included

- Electric irrigation system in the amount of $20,032
- A bus in the amount of $83,400
- 10 Passenger van in the amount of $29,145
- Various machinery and equipment in the amount of $34,117

2. Long-Term Debt

At June 30, 2019, the District had $617,121 in bonded debt outstanding. This represents a decrease of $77,140 from the amount outstanding at the close of the prior fiscal year. Other long-term debt includes compensated absences of $142,055, net pension liability of $10,409,261, and net other postemployment benefit liability of $2,709,949.

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

I. Factors Bearing on the District's Future

The District's enrollment has stabilized. However, for 2019/2020, it is anticipated that they will once again take advantage of the three year blend to give them a higher pupil count to calculate state aid.

Retirement costs continue to be a concern for the District. In 2019/2020, the District anticipates spending $1,232,971 for employee retirement costs. This is approximately 18% of their total budget.

The cost of health care also continues to be a concern for the District. The District anticipates health insurance to cost approximately $727,759 for 2019/2020. This is approximately 11% of the total budget.

The District has identified concerns with their facilities. They are trying to pass a bond to get the needed funds to correct the issues. The bond has failed twice. Since the operating millage is expiring this year, the focus will be on making sure that passes. In the meantime, the district is working with its resources to make improvements and updates to the school.

Mesick Consolidated Schools is the charter authorizer for Highpoint Virtual Academy. The academy has finished its third year with the District, who rent office space to the academy. In addition, the District will receive an administrative fee based on the number of students enrolled in the academy. The academy is increasing in size as they are servicing additional grades each year. For 2019/2020, Highpoint has expanded to a full K-12 district and will be offering early college opportunities for their students. The administrative fee will be used for enhancing the educational opportunities for students. The board has made a decision to set these funds aside instead of using them for day to day operations, since the future of this arrangement is not guaranteed.

Currently, the state has not finalized school budget for the 2019/2020 school year. The District has a preliminary budget prepared based on many assumptions. Unfortunately, school may start before they know their foundation allowance and categoricals for 2019/2020. It will be difficult to make adjustments once schedules are handed out and teaching assignments have been made should the need arise due to lower than anticipated funding. In addition, initial allocations for federal grants are significantly lower than last year. This will be a challenge to adapt the programming to fit the funding constraints.

Mesick Consolidated Schools is striving to meet the challenges facing them while remaining a school of excellence.

J. Contacting the District's Financial Management

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 financial information, please contact the Wexford-Missaukee Intermediate School District, 9907 East 13th Street, Cadillac, Michigan 49601.

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2019

ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$	1,548,895
Investments		43,480
Accounts Receivable		806
Due from Other Governmental Units		942,806
Inventories		1,825
Prepaid Expenses		8,278
Total Current Assets		2,546,090
NON CURRENT ASSETS		
Capital Assets		12,085,912
Less Accumulated Depreciation		(5,549,707)
Total Non Current Assets		6,536,205
Total Assets		9,082,295
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions		3,398,842
Related to Other Postemployment Benefits		490,194
Total Deferred Outflows of Resources		3,889,036
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable		48,528
Salaries and Benefits Payable		532,510
Accrued Interest Payable		4,341
State Aid Anticipation Note Payable		159,140
Unearned Revenue		18,759
Current Portion of Non Current Liabilities		77,140
Total Current Liabilities		840,418
NON CURRENT LIABILITIES		
Bonds Payable		617,121
Compensated Absences		142,055
Net Pension Liability		10,409,261
Net Other Postemployment Benefit Liability		2,709,949
Less Current Portion of Non Current Liabilities		(77,140)
Total Non Current Liabilities		13,801,246
Total Liabilities		14,641,664
DEFERRED INFLOWS OF RESOURCES		
Related to Pensions		1,453,715
Related to Other Postemployment Benefits		752,291
Total Deferred Inflows for Resources		2,206,006
NET POSITION		
Net Investment in Capital Assets		5,919,084
Restricted for Capital Projects		252,000
Unrestricted (Deficit)		(10,047,423)
TOTAL NET POSITION (DEFICIT)	$	(3,876,339)

The notes to the financial statements are an integral part of this statement.

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS & CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS & CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES: NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
GOVERNMENTAL ACTIVITIES					
Instruction	$ 4,019,005	$ 41,837	$ 1,267,450	$ 0	$ (2,709,718)
Supporting Services	2,441,850	12,132	264,435	0	(2,165,283)
Community Services	2,545	0	2,545	0	0
Food Service	519,805	71,674	346,723	0	(101,408)
Building Improvement Services	3,140	0	0	0	(3,140)
Interest on Long-Term Debt	28,756	0	27,423	0	(1,333)
Other Transactions	500	0	0	0	(500)
Unallocated Depreciation	320,649	0	0	0	(320,649)
TOTAL GOVERNMENTAL ACTIVITIES	$ 7,336,250	$ 125,643	$ 1,908,576	$ 0	(5,302,031)
GENERAL REVENUES					
Property Taxes - General Purposes					1,259,735
Investment Earnings					7,574
State Sources					3,963,941
Gain on Sale of Capital Assets					500
Other					20,391
Total General Revenues					5,252,141
Change in Net Position					(49,890)
NET POSITION - Beginning of Year - (Deficit)					(3,826,449)
NET POSITION - End of Year (Deficit)					$ (3,876,339)

The notes to the financial statements are an integral part of this statement.

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2019

	GENERAL FUND	CAPITAL PROJECTS FUND	NONMAJOR GOVERNMENTAL FUND FOOD SERVICE	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and Cash Equivalents	$ 943,058	$ 526,610	$ 79,227	$ 1,548,895
Investments	43,480	0	0	43,480
Accounts Receivable	749	0	57	806
Due from Other Governmental Units	940,281	0	2,525	942,806
Inventories	0	0	1,825	1,825
Prepaid Expenditures	8,278	0	0	8,278
TOTAL ASSETS	$ 1,935,846	$ 526,610	$ 83,634	$ 2,546,090
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	$ 48,528	$ 0	$ 0	$ 48,528
Salaries and Benefits Payable	531,060	0	1,450	532,510
State Aid Anticipation Note Payable	159,140	0	0	159,140
Unearned Revenue	15,947	0	2,812	18,759
Total Liabilities	754,675	0	4,262	758,937
FUND BALANCES				
Nonspendable, Inventory	0	0	1,825	1,825
Nonspendable, Prepaid	8,278	0	0	8,278
Restricted for Food Service	0	0	77,547	77,547
Restricted for Capital Projects	0	252,000	0	252,000
Committed for Compensated Absences	142,055	0	0	142,055
Committed for Capital Projects	0	274,610	0	274,610
Committed for Educational Experience	265,547	0	0	265,547
Assigned for Subsequent Year Budget Shortfall	149,444	0	0	149,444
Unassigned	615,847	0	0	615,847
Total Fund Balances	1,181,171	526,610	79,372	1,787,153
TOTAL LIABILITIES AND FUND BALANCES	$ 1,935,846	$ 526,610	$ 83,634	$ 2,546,090

The notes to the financial statements are an integral part of this statement.

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

JUNE 30, 2019

Total Governmental Fund Balances		$ 1,787,153
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 are not reported in the funds		
The cost of the capital assets is	$ 12,085,912	
Accumulated depreciation is	(5,549,707)	6,536,205
Long-term liabilities are not due and payable in the current period and are not reported in the funds		
Bonds Payable		(617,121)
Compensated Absences		(142,055)
Net Pension Liability		(10,409,261)
Net Other Postemployment Benefit Liability		(2,709,949)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources Related to Pensions		3,398,842
Deferred Inflows of Resources Related to Pensions		(1,453,715)
Deferred Outflows of Resources Related to Other Postemployment Benefits		490,194
Deferred Inflows of Resources Related to Other Postemployment Benefits		(752,291)
Accrued interest on bonds is not included as a liability in government funds, it is recorded when paid		(4,341)
NET POSITION OF GOVERNMENTAL ACTIVITIES		$ (3,876,339)

The notes to the financial statements are an integral part of this statement.

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2019

	GENERAL FUND	CAPITAL PROJECTS FUND	NONMAJOR GOVERNMENTAL FUND FOOD SERVICE	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Local Sources	$ 1,335,067	$ 6,549	$ 71,727	$ 1,413,343
State Sources	5,023,357	0	16,341	5,039,698
Federal Sources	395,149	0	330,934	726,083
Other Transactions	118,913	0	0	118,913
Total Revenues	6,872,486	6,549	419,002	7,298,037
EXPENDITURES				
Instruction				
Basic Programs	2,944,360	0	0	2,944,360
Added Needs	1,103,481	0	0	1,103,481
Supporting Services				
Pupil	64,122	0	0	64,122
Instructional Staff	108,648	0	0	108,648
General Administration	327,654	0	0	327,654
School Administration	376,417	0	0	376,417
Business	85,566	0	0	85,566
Operation and Maintenance	833,837	0	0	833,837
Pupil Transportation Services	421,739	0	0	421,739
Central Services	147,390	0	0	147,390
Athletic Activities	155,678	0	0	155,678
Community Services				
Community Activities	2,545	0	0	2,545
Food Service	0	0	430,516	430,516
Building Improvement Services	0	3,140	0	3,140
Debt Service				
Principal	77,140	0	0	77,140
Interest	29,298	0	0	29,298
Other Transactions	500	0	0	500
Total Expenditures	6,678,375	3,140	430,516	7,112,031
Excess (Deficiency) of Revenues Over Expenditures	194,111	3,409	(11,514)	186,006
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	500	0	0	500
Transfer In (Out)	(45,100)	45,000	100	0
Total Other Financing Sources (Uses)	(44,600)	45,000	100	500
Net Change in Fund Balance	149,511	48,409	(11,414)	186,506
FUND BALANCE - Beginning of Year	1,031,660	478,201	90,786	1,600,647
FUND BALANCE - End of Year	$ 1,181,171	$ 526,610	$ 79,372	$ 1,787,153

The notes to the financial statements are an integral part of this statement.

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

Net Change in Fund Balances Total Governmental Funds	$ 186,506
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlay as expenditures. In the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(320,649)
Capital Outlay	166,694
Accrued interest on bonds is recorded in the Statement of Activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued Interest Payable - Beginning of Year	4,883
Accrued Interest Payable - End of Year	(4,341)
The issuance of Long-Term Debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.	
Repayment of Bond Principal	77,140
Governmental funds report district pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as a pension expense.	
Change in Pension Related Items	(288,605)
Change in Other Postemployment Benefit Related Items	126,832
Change in Restricted Revenue Reported in the Governmental Funds that is deferred to offset the deferred outflows related to Section 147c pension contributions subsequent to the measurement period:	
State Aid Funding for Pension	(12,177)
Employees Early Retirement and Compensated Absences are reported on the accrual method in the Statement of Activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Compensated Absences - Beginning of Year	155,882
Compensated Absences - End of Year	(142,055)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$ (49,890)

The notes to the financial statements are an integral part of this statement.

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

JUNE 30, 2019

	AGENCY FUND
ASSETS	
Cash and Cash Equivalents	$ 127,233
LIABILITIES	
Due to Groups and Organizations	127,233
NET POSITION	$ 0

The notes to the financial statements are an integral part of this statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Mesick Consolidated Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The School District ("the District") is located in Wexford and Manistee Counties with its administrative offices located in Mesick, Michigan. The District operates under an elected 7-member board of education and provides services to its students in elementary, high school, special education instruction, guidance, health, transportation, food service, athletics and recreation. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

B. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The School District does not have any business-type activities or component units.

C. Basis of Presentation – Government-Wide Financial Statements

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

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

D. Basis of Presentation – Fund Financial Statements

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

The District reports the following major governmental funds:

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

The *Capital Projects Fund* accounts for the acquisition of fixed assets or construction of major capital projects.

Other Non-Major Funds:

The *special revenue (School Service) fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its food service activities in a special revenue fund.

Additionally, the District reports the following fund type:

Fiduciary funds are accounted for using the accrual method of accounting. Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. This fund is custodial in nature and does not involve measurement of results of operations. Accordingly, it presents only a statement of fiduciary net position and does not present a statement of changes in fiduciary net position. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The District reports the following fiduciary fund:

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

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement Focus and Basis of Accounting

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

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

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

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

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

F. Budgetary Information

1. Budgetary Basis of Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. While all appropriations and encumbrances lapse at year-end, value outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

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

a) In June, the business office submits to the school board a proposed operating budget for the fiscal year commencing on July 1.

b) A public hearing is conducted during June to obtain taxpayer comments.

c) Prior to June 30, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year, when necessary, to adjust appropriations if it appears that revenues and other financial sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated.

d) The superintendent is charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.

e) For purposes of meeting emergency needs of the school district, transfer of appropriations may be made by the authorization of the superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

f) During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.

g) Budgeted amounts are as originally adopted on June 25, 2018, or as amended by the School Board of Education throughout the year.

2. Excess of Expenditures Over Appropriations

General Fund:

Instruction:

a) Basic Program expenditures of $2,944,360 exceeded appropriations of $2,932,689.

Supporting Services:

a) Pupil expenditures of $64,122 exceeded appropriations of $63,355.

b) Business expenditures of $85,566 exceeded appropriations of $85,002.

c) Operation and Maintenance expenditures of $833,837 exceeded appropriations of $828,338

Food Service:

a) Food Service expenditures of $430,516 exceeded appropriations of $425,095.

These overages were funded with available fund balance.

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

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments. The District considers all highly liquid investments (including certificates of deposit) to be cash equivalents.

2. Investments

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

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the School District to invest as follows:

(a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States.

(b) Certificates of deposit issued by any state or national bank 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.

(e) United States government or federal agency obligation repurchase agreements.

(f) Bankers' acceptances issued by a bank that is a member of the federal deposit insurance corporation.

(g) Mutual funds composed entirely investment vehicles that are legal for direct investment by a school district.

(h) Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.

The District's deposits and investments are held separately by several of the District's funds.

3. Inventory and Prepaid Items

Inventory is valued at cost using the first-in/first-out method. Inventory consists of expendable supplies held for consumption, which are recorded as expenditures when consumed rather than when purchased. Certain payments made to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

The nonspendable fund balance at the governmental fund level is equal to the amount of inventories and prepaid items at year-end to indicate the portion of the governmental fund balances that are nonspendable.

4. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at acquisition value on the date received.

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

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	25 - 50 years
Furniture and other equipment	5 - 20 years

The District's capitalization policy is to capitalize individual amounts exceeding $5,000.

5. Unearned Revenue

Unearned revenue arises when resources are received by the District before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenues are recognized. The District has unearned revenue in the General Fund and Food Service Fund that is related to state and local grants/donations, with restrictions on how they can be spent, being received but as of the year-end have not been spent.

6. Defined Benefit Plans

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

7. Deferred Outflows/Inflows 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 a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualifies for reporting in this category, which are related to the pension plan and other postemployment benefit plan for its employees. These amounts are expenses in the plan year in which they apply. Details can be found in footnotes 3.E and 3.F.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. They are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. Details can be found in footnotes 3.E and 3.F.

8. Long-Term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related obligations.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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 issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

***9. Compensated* Absences**

It is the District’s policy to permit employees to accumulate certain earned but unused benefits. The amount allowable to be compensated for depends on the position and the longevity of the individual employee. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

10. Net Position Flow Assumption

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

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

11. Fund Balance Flow Assumptions

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

12. Fund Balance Policies

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

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

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

13. Use of Estimates

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

H. Revenues and Expenditures/Expenses

1. State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2019 the foundation allowance was based on pupil membership counts taken in February 2018 and October of 2018. For fiscal year ended June 30, 2019, the per pupil foundation allowance was $7,871 for Mesick Consolidated Schools.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2018 to August 2019. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

2. Program Revenues

Amounts reported as program revenue 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. All taxes, including those dedicated for specific purposes, state foundation aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenue but instead as *general revenues*.

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are billed as of December 1. The due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

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

Fund	Mills
General Fund – Non-Principal Residence Exemption (PRE)	18.0000
General Fund – Commercial Personal Property	6.0000

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Violations of Legal or Contractual Provisions

Note 1.F.2, on the Excess of Expenditures Over Appropriations, describes a budgetary violation that occurred for the year ended June 30, 2019.

NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2019, the District's bank balance was $1,794,599 and $1,206,858 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. Since the District utilizes pooled checking accounts, the concentration of this risk is spread amongst all funds. Of the uninsured funds, the entire amount is in governmental funds. Although the District's investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the deposits.

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

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

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

Custodial credit risk – Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Although the District's investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the investments.

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

	Fair Value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
MILAF+ External Investment Pool - MIMAX	$ 1	0.0027	AAAm	0.00%
MILAF+ External Investment Pool - Cash Mgmt	43,479	0.0027	AAAm	100.00%
	$ 43,480			100.00%
Portfolio Weighted Average Maturity		0.0027		

1 Day Maturity Equals 0.0027, One Year Equals 1.000

The District 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 Plus (MILAF+). MILAF+ is a local government investment pool 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 pooled shares. MILAF, as defined by GASB, is recorded at amortized cost which approximates fair value. The MILAF+ portfolio offers three share classes which are: Cash Management Class, MAX Class, and GovMIC Class. The only class that has limitations or restrictions on withdrawals is MAX Class, which requires notification of redemptions prior to 14 days to avoid penalties. The MILAF+ portfolio is not subject to fair value disclosures.

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

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

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices from similar activities, interest rates, prepayment speeds, credit risk, and others. Debt securities are valued in accordance with evaluated bid price supplied by the pricing service and generally categorized as Level 2 in the hierarchy. Securities that are categorized as Level 2 in the hierarchy include, but are not limited to, repurchase agreements, U.S. government agency securities, corporate securities, and commercial paper.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the reporting entity's own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There are two types of valuation techniques most commonly used and vary depending on the level of investment. These two techniques are the market approach and income approach. The market approach uses prices and other relevant information generated by the market transactions involving identical or similar assets and liabilities. The income approach discounts future amounts to a single current amount and the discount rate used in the process should reflect current market expectations about risks associated with those future cash flows.

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

The carrying amount of deposits and investments is as follows:

	Total
Deposits – including Fiduciary Funds of $127,233	$ 1,676,128
Investments	43,480
	$ 1,719,608

The above amounts are reported in the financial statements as follows:

	Total
Cash - Fiduciary Funds	$ 127,233
Cash - District-Wide	1,548,895
Investments	43,480
	$ 1,719,608

B. Receivables and Unearned Revenue

Receivables as of year-end for the government's individual major funds and nonmajor are as follows:

	General	Non-Major	Total
Receivables:			
Accounts	$ 749	$ 57	$ 806
Due from Other Governmental Units	940,281	2,525	942,806
TOTAL	$ 941,030	$ 2,582	$ 943,612

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

Because of the District's favorable collection experience, no allowance for doubtful accounts has been recorded.

Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, The District reported unearned revenue of $18,759, which is made up of grant receipts and other revenue that has been received, but not yet earned.

C. Capital Assets

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

	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
Assets Not Being Depreciated				
Land	$ 200,631	$ 0	$ 0	$ 200,631
Other Capital Assets:				
Land Improvements	503,668	20,032	0	523,700
Buildings and Additions	9,719,782	0	0	9,719,782
Machinery and Equipment	580,137	34,117	0	614,254
Textbooks and Library Books	127,850	0	0	127,850
Transportation Equipment	787,150	112,545	0	899,695
Subtotal	11,718,587	166,694	0	11,885,281
Accumulated Depreciation				
Other Capital Assets:				
Land Improvements	412,873	7,066	0	419,939
Buildings and Additions	3,818,218	211,840	0	4,030,058
Machinery and Equipment	463,150	23,305	0	486,455
Textbooks and Library Books	127,850	0	0	127,850
Transportation Equipment	406,967	78,438	0	485,405
Subtotal	5,229,058	320,649	0	5,549,707
Net Capital Assets Being Depreciated	6,489,529	(153,955)	0	6,335,574
Net Capital Assets	$ 6,690,160	$ (153,955)	$ 0	$ 6,536,205

Depreciation for the fiscal year ended June 30, 2019, amounted to $320,649. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

D. Retirement and Post-Employment Benefits

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

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.

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

Benefits Provided- Overall

Introduction

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

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

Benefits Provided – Pension

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

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

Pension Reform 2010

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

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

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

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

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

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

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

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

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

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

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

Pension Reform of 2017

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

Benefits Provided – Other postemployment benefit (OPEB)

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree 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.

Retiree Healthcare Reform of 2012

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

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

Regular Retirement (no reduction factor for age)

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

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

Member Contributions

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

Employer Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree other postemployment benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

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

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

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

The District's pension contributions for the year ended June 30, 2019 were equal to the required contribution total. Pension contributions were $946,352, with $922,673 specifically for the Defined Benefit Plan.

The District's OPEB contributions for the year ended June 30, 2019 were equal to the required contribution total. OPEB benefits were $247,326, with $232,979 specifically for the Defined Benefit Plan.

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

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

Pension Liabilities

At June 30, 2019, the District reported a liability of $10,409,261 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2017 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2018 and 2017, the District's proportion was .0346262% and .0357166%, respectively.

MPSERS (Plan) Non-University Employers Net Pension Liability

	September 30, 2018	September 30, 2017
Total Pension Liability	$ 79,863,694,444	$ 72,407,218,688
Plan Fiduciary Net Position	49,801,889,205	46,492,967,573
Net Pension Liability	$ 30,061,805,239	$ 25,914,251,115
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	62.36%	64.21%
Net Pension Liability as a Percentage of Covered-Employee Payroll	352.81%	309.13%

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

For the year ended June 30, 2019, the District recognized total pension expense of $1,211,278.

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
Differences between expected and actual experience	$ 48,301	$ 75,642
Section 147c revenue related to District Pension contributions subsequent to measurement date	0	376,971
Changes of assumptions	2,410,776	0
Net difference between projected and actual earnings on pension plan investments	0	711,729
Changes in proportion and differences between District contributions and proportionate share of contributions	85,580	289,373
District contributions subsequent to the measurement date	854,185	0
Total	$ 3,398,842	$ 1,453,715

$854,185 reported as deferred outflows of resources and $376,971 reported as deferred inflows or resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources (+) and deferred inflows of resources (-) related to pensions will be recognized in pension expense as follows:

Year Ended September 30,	Amount
2019	$ 640,884
2020	448,270
2021	272,237
2022	106,522
	$ 1,467,913

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

OPEB Liabilities

At June 30, 2019, the District reported a liability of $2,709,949 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2017 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2018 and 2017, the District's proportion was 0.0340919% and 0.0358305%, respectively.

MPSERS (Plan) Non-University Employers Net OPEB Liability

	September 30, 2018	September 30, 2017
Total OPEB Liability	$ 13,932,170,264	$ 13,920,945,991
Plan Fiduciary Net Position	5,983,218,473	5,065,474,948
OPEB Liability	$ 7,948,951,791	$ 8,855,471,043
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	42.95%	36.39%
OPEB Liability as a Percentage of Covered Payroll	93.29%	105.64%

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

For the year ended June 30, 2019, the District recognized total OPEB expense of $106,147.

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
Differences between expected and actual experience	$ 0	$ 504,391
Changes of assumptions	286,985	0
Net difference between projected and actual earnings on OPEB plan investments	0	104,150
Changes in proportion and differences between District contributions and proportionate share of contributions	0	143,750
District contributions subsequent to the measurement date	203,209	0
Total	$ 490,194	$ 752,291

$203,209 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources (+) and deferred inflows of resources (-) related to OPEB will be recognized in OPEB expense as follows:

Year Ended September 30,	Amount
2019	$ (110,939)
2020	(110,939)
2021	(110,939)
2022	(89,061)
2023	(43,428)
	$ (465,306)

G. Actuarial Assumptions

Investment rate of return for Pension – 7.05% a year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus Plan).

Investment rate of return for OPEB – 7.15% a year, compounded annually net of investment and administrative expenses

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

Inflation – 3.0%

Mortality assumptions –

Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Active: RP-2014 Male and Female Employee Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Disabled Retirees: RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

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

The long-term expected rate of return on pension and other postemployment benefit plan investments - The pension rate was 7.05% (7% Pension Plus Plan), and the other postemployment benefit rate was 7.15%, net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Healthcare cost trend rate for other postemployment benefit – 7.5% for year one and graded to 3.0% to year twelve.

Additional assumptions for other postemployment benefit only – Applies to individuals hired before September 4, 2012:

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

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

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

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

Investment Category	Target Allocation	Long-Term Expected Real Rate of Return *
Domestic Equity Pools	28.00%	5.60%
Alternative Investment Pools	18.00%	8.70%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	-0.10%
Real Estate & Infrastructure Pools	10.00%	4.20%
Absolute Return Pools	15.50%	5.00%
Short-Term Investment Pools	2.00%	-0.90%
	100%	

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

Pension Discount Rate

A discount rate of 7.05% was used to measure the total pension liability (7.0% for the Pension Plus Plan and 6.00% for the Pension Plus 2 Plan). This discount rate was based on the long-term rate of return on pension plan investments of 7.05% (7.0% for the Pension Plus Plan and 6.00% for the Pension Plus 2 Plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

OPEB Discount Rate

The discount rate of 7.15% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.15%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that school districts contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was project to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the 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% (7.0% for the Pension Plus Plan and 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 point higher than the current rate:

1% Decrease	Discount Rate	1% Increase
$ 13,666,555	$ 10,409,261	$ 7,702,978

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

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

1% Decrease	Discount Rate	1% Increase
$ 3,523,238	$ 2,709,949	$ 225,297

Sensitivity to the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

1% Decrease	Healthcare Cost Trend Rates	1% Increase
$ 2,228,903	$ 2,709,949	$ 3,261,806

H. Pension and OPEB Plan Fiduciary Net Position

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

I. Payables to the Pension and OPEB Plan

As of June 30, 2019, the District is current on all required pension and OPEB plan payments. As of June 30, 2019, the District reported payables in the amount of $152,091 to the pension and OPEB plan. These amounts represent current payments for June wages paid in July, accruals for summer pay primarily for teachers and also the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL).

J. Risk Management

Mesick Consolidated Schools are 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 Schools participate in distinct pools of educational institutions within the State of Michigan for various risks of loss, including general liability, property and casualty, employee health and accident insurance, and workers' disability compensation. The pools are considered public entity risk pools. The Schools pay annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to a special assessment to make up the deficiency. The Schools have not been informed of any special assessments being required.

K. Long-Term Obligations

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of the governmental long-term obligation transactions for the School District for the year ended June 30, 2019:

	COMPENSATED ABSENCES	GENERAL OBLIGATION BONDS	NET PENSION LIABILITY	NET OPEB LIABILITY	TOTAL
Balance, July 1, 2018	$ 155,882	$ 694,261	$ 9,255,676	$ 3,172,963	$ 13,278,782
Additions	0	0	2,096,464	0	2,096,464
Deletions	(13,827)	(77,140)	(942,879)	(463,014)	(1,496,860)
Balance, June 30, 2019	142,055	617,121	10,409,261	2,709,949	13,878,386
Less current portion	Unknown	(77,140)	Unknown	Unknown	(77,140)
Total due after one year	$ 142,055	$ 539,981	$ 10,409,261	$ 2,709,949	$ 13,801,246

The District's liability obligations at June 30, 2019, are comprised of the following issues:

2012 Energy Conservation Improvement QZAB Bond	
Energy Improvement Bonds, due in monthly installments of $77,140 to $77,141 through May 1, 2027, interest at 4.22%.	$ 617,121
Compensated Absences Payable	
Accumulated Sick Pay and Vacation Pay	142,055
Net Pension Liability	
Proportionate Share of Pension Liability	10,409,261
Net OPEB Liability	
Proportionate Share of OPEB Liability	2,709,949
TOTAL LONG-TERM OBLIGATIONS	$ 13,878,386

The annual requirements to amortize all long-term obligations outstanding as of June 30, 2019, including interest payments of $117,192 are as follows:

Year Ending June 30,	Principal	Interest	Total
2020	$ 77,140	$ 26,043	$ 103,183
2021	77,140	22,787	99,927
2022	77,140	19,532	96,672
2023	77,140	16,277	93,417
2024	77,140	13,021	90,161
2025-2027	231,421	19,532	250,953
	$ 617,121	$ 117,192	$ 734,313

Interest on the 2012 Energy Conservation Improvement QZAB Bond is expected to be offset nearly entirely by a federal interest subsidy.

The annual requirements to amortize the accrued compensated absences and net pension and OPEB liabilities are uncertain because it is unknown when the when the repayments will be made.

Compensated absences and net pension and OPEB liabilities will be paid by the fund in which the employee worked, including the general fund and other governmental funds.

L. Short-Term Obligations

On August 20, 2018, the District issued a State Aid Note in the amount of $800,000. The purpose of the note was to provide for cash flow needs at the beginning of the school year. At June 30, 2019, the balance outstanding on this note was $159,064 plus accrued interest of $76. The note matures on August 20, 2019 with interest at 1.75%.

The District pledged its State Aid revenue for payment of this liability at maturity. In an event of a default on the note, the state may impose a penalty interest rate and at the state's discretion, accelerate the repayment terms. The district has made required payments to an irrevocable set-aside account in the amount of $651,200 to cover a portion of the principal amount plus interest. At year-end, these payments are considered defeased debt and are not included in the year-end balance. The balance plus interest, $159,140 will be deducted from the District's July state aid payment. Interest expense for the year was $10,340.

The following is a summary of the Short-Term Obligations transactions for the School District for the year ended June 30, 2019:

Short-Term Obligations at July 1, 2018	$	170,103
New Obligations Issued		800,000
Obligations Retired and Paid		(810,963)
Short-Term Obligations at June 30, 2019	$	159,140

M. Interfund Transfers

		TRANSFERS IN		TRANSFERS OUT
General Fund	$	0	$	45,100
Capital Projects Fund		45,000		0
Food Service Fund		100		0
	$	45,100	$	45,100

The 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.

N. Lease Information

1. Operating Lease

The School District leases various office equipment. The total rental expense for the fiscal years ended June 30, 2019, and June 30, 2018, was $5,323 and $8,608 respectively. The future minimum payments are summarized below:

YEAR-ENDING	AMOUNTS
2020	$ 4,067
2021	4,067
	$ 8,134

O. Other Information

1. Contingencies

Contingencies - Under the terms of various federal and state grants and regulatory requirements, periodic audits are required, and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the district.

2. Commitment

The District has agreed to borrowing short-term debt for cash flow purposes in the amount of $800,000.

P. Tax Abatements

It has been determined that the District has granted tax abatements as defined by GASB Statement No. 77. However, the total of these abatements is less than $4,000, and it has been determined they are not significant enough to warrant disclosure.

Q. Upcoming Accounting Pronouncements

The District is currently evaluating the impact these standards will have on the financial statements when adopted.

Governmental Accounting Standards Board (GASB) Statement No. 84 – *Fiduciary Activities*

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

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

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2019

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Local Sources	$ 1,321,837	$ 1,337,321	$ 1,335,067
State Sources	4,564,212	5,015,938	5,023,357
Federal Sources	363,667	465,442	395,149
Other Transactions	125,950	120,749	118,913
Total Revenues	6,375,666	6,939,450	6,872,486
EXPENDITURES			
Instruction			
Basic Programs	3,140,580	2,932,689	2,944,360
Added Needs	886,683	1,148,119	1,103,481
Supporting Services			
Pupil	106,572	63,355	64,122
Instructional Staff	45,090	132,570	108,648
General Administration	298,928	332,181	327,654
School Administration	375,327	377,985	376,417
Business	78,033	85,002	85,566
Operation and Maintenance	632,571	828,338	833,837
Pupil Transportation Services	356,898	432,429	421,739
Central Services	142,782	167,283	147,390
Athletic Activities	155,504	156,267	155,678
Community Services			
Community Activities	3,943	4,243	2,545
Debt Service			
Principal	77,140	77,140	77,140
Interest	29,298	29,298	29,298
Other Transactions	500	500	500
Total Expenditures	6,329,849	6,767,399	6,678,375
Excess (Deficiency) of Revenues Over Expenditures	45,817	172,051	194,111
OTHER FINANCING SOURCES (USES)			
Sale of Capital Assets	0	500	500
Transfer In (Out)	(45,000)	(45,100)	(45,100)
Total Other Financing Sources (Uses)	(45,000)	(44,600)	(44,600)
Net Change in Fund Balance	817	127,451	149,511
FUND BALANCE - Beginning of Year	891,709	1,031,660	1,031,660
FUND BALANCE - End of Year	$ 892,526	$ 1,159,111	$ 1,181,171

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH PLAN YEAR)
JUNE 30, 2019

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of net pension liability (%)						0.03426%	0.03572%	0.03604%	0.03502%	0.03505%
District's proportionate share of net pension liability						$ 10,409,261	$ 9,255,676	$ 8,992,491	$ 8,553,901	$ 7,719,968
District's covered payroll						2,899,825	2,966,539	3,084,320	2,929,216	2,990,431
District's proportionate share of net pension liability as a percentage of its covered payroll						358.96%	312.00%	291.56%	292.02%	258.16%
Plan fiduciary net position as a percentage of total pension liability						62.36%	64.21%	63.27%	63.17%	66.20%

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)
JUNE 30, 2019

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contributions						$ 946,352	$ 871,442	$ 848,601	$ 817,983	$ 663,279
Contributions in relation to statutorily required contributions *						946,352	871,442	848,601	817,983	663,279
Contribution deficiency (excess)						$ 0	$ 0	$ 0	$ 0	$ 0
Covered payroll						$ 3,072,133	$ 2,850,913	$ 3,025,012	$ 2,979,516	$ 2,931,473
Contributions as a percentage of covered payroll						30.80%	30.57%	28.05%	27.45%	22.63%

* Contributions in relation to statutorily contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OTHER POSTEMPLOYMENT BENEFIT LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH PLAN YEAR)
JUNE 30, 2019

	2026	2025	2024	2023	2022	2021	2020	2019	2018	2017
District's proportion of net OPEB liability (%)									0.03409190%	0.03583054%
District's proportionate share of net OPEB liability									$ 2,709,949	$ 3,172,963
District's covered payroll									2,899,825	2,966,539
District's proportionate share of net OPEB liability as a percentage of its covered payroll									93.45%	106.96%
Plan fiduciary net position as a percentage of total OPEB liability									42.95%	36.39%

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)
JUNE 30, 2019

	2027	2026	2025	2024	2023	2022	2021	2020	2019	2018
Statutorily required contributions									$ 247,356	$ 278,956
Contributions in relation to statutorily required contributions *									247,356	278,956
Contribution deficiency (excess)									$ 0	$ 0
Covered payroll									$ 3,072,133	$ 2,850,913
Contributions as a percentage of covered payroll									8.05%	9.78%

* Contributions in relation to statutorily contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED JUNE 30, 2019

A. Changes of Benefit Terms:

There were no changes of benefit terms for the plan year ended September 30, 2018.

B. Changes of Assumptions:

There were no changes of benefit assumptions for the plan year ended September 30, 2018.