

**NORTH HURON SCHOOLS
KINDE, MICHIGAN**

**FINANCIAL STATEMENTS
JUNE 30, 2019**

NORTH HURON SCHOOLS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
North Huron Schools
Kinde, 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 North Huron Schools, 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 North Huron Schools, as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North Huron School's basic financial statements. The additional supplementary information is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2019, on our consideration of North Huron School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the North Huron School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Huron School's internal control over financial reporting and compliance.

Nietzke & Faupel P.C.

NIETZKE & FAUPEL, P.C.
Pigeon, Michigan

October 1, 2019

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of North Huron School’s annual financial report presents our discussion and analysis of the District’s financial performance during the fiscal year that ended on June 30, 2019. Please read it in conjunction with the district’s financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

The District’s General Fund showed revenue and other financing sources exceeded expenditures and other financing uses by \$75,276.

Community Service Fund showed revenue and other financing sources exceeded expenditures by \$2,635. General Fund provided an operating transfer of \$84,200 to offset personnel costs.

2018 Capital Project Fund was created showing bond proceeds of \$7,947,226, investment earnings of the proceeds of \$151,200 less phase 1 construction costs of \$1,031,391 leaving a fund balance of \$7,067,035.

The Food Service Fund showed expenditures and other financing uses exceeded revenue and other financing sources by \$5,545. This decreased the fund balance from \$47,911 to \$42,366.

In total, District revenues exceeded \$6.7 and \$6.1 million dollars for the fiscal years ended June 30, 2019 and 2018, respectively. Expenditures over the same time period were \$7.4 and \$6.3 million dollars for the fiscal years ended June 30, 2019 and 2018, respectively.

During the fiscal year 2019, the District retired \$1,140,000 of principal from its long-term debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

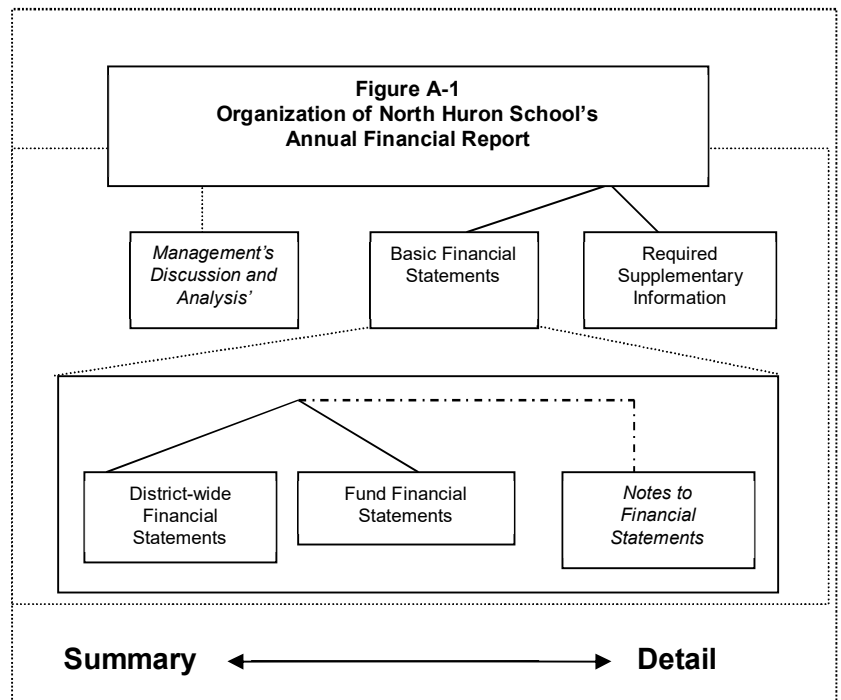
The first two statements are district-wide financial statements that provide both short-term and long-term information about the District’s overall financial status.

The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District’s operations *in more detail* than the district-wide statements.

The *governmental fund* statements tell how *basic* services like instruction and support services were financed in the *short term* as well as what remains for future spending.

Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

(Continued)



The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2 Major Features of District-Wide and Fund Financial Statements			
	<u>District-wide Statements</u>	<u>Fund Financial Statements</u>	
		<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenue, expenditures and changes in fund balances	* Statement of fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, North Huron Schools funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

GOVERNMENT-WIDE STATEMENTS

The Government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, deferred outflows, deferred inflows and liabilities. All of the revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide financial statements report the District's *net position* and how they have changed. Net position – the difference between the District's assets, deferred outflows, deferred inflows and liabilities – are one way to measure the District's financial health or *position*.

The District's combined net position at the beginning of the fiscal year was \$(1,496,713) and on June 30, 2019 it is \$(536,867) which represents an increase of \$959,846 as recorded in the statement of activities. This increase is due primarily to capital projects for the District.

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

To assess the overall health of the District, you need to consider additional nonfinancial 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 included:

Governmental activities – Most of the District's basic services are included here, such as instruction, support services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by State law and by bond covenants.

The District establishes other funds to control and manage money for particular purposes (like repaying debt, and its capital project fund) or to show that it is properly using certain revenues (like school lunch).

The District has two kinds of funds:

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

Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. 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. We exclude these activities from the government-wide financial statements because the District cannot use these to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The statement of net position provides the perspective of the District as a whole. Table A-3 provides a summary of the District's net position as of June 30, 2019 and 2018.

**Table A-3
North Huron Schools
Net Position**

	<u>2019</u>	<u>2018</u>
Current assets	\$ 2,686,696	\$ 2,472,724
Restricted assets	7,522,347	-
Noncurrent assets	<u>7,310,242</u>	<u>6,609,396</u>
Total assets	<u>17,519,285</u>	<u>9,082,120</u>
Deferred outflows of resources	<u>2,808,026</u>	<u>1,817,321</u>
Current liabilities	2,182,387	988,617
Noncurrent liabilities	7,790,973	1,717,199
Net other postemployment benefits liability	1,943,735	2,212,478
Net pension liability	<u>7,357,819</u>	<u>6,438,035</u>
Total liabilities	<u>19,274,914</u>	<u>11,356,329</u>
Deferred inflows of resources	<u>1,589,264</u>	<u>1,039,825</u>
Net position:		
Net investment in capital assets	5,994,696	4,566,753
Restricted	584,150	451,402
Unrestricted	<u>(7,115,713)</u>	<u>(6,514,868)</u>
Total net position	<u>\$ (536,867)</u>	<u>\$(1,496,713)</u>

(Continued)

The statement of activities shows the results of this year's operations for North Huron Schools as a whole. Table A-4 shows the changes in net position of the District as of June 30, 2019 and 2018.

Table A-4
Change in North Huron School's Net Position

	<u>2019</u>	<u>2018</u>
Revenues		
Program revenues		
Charges for services	\$ 209,871	\$ 192,185
Federal and state categorical grants	1,619,128	1,749,261
General revenues		
Property taxes	4,622,879	4,036,833
State sources	118,893	79,110
Other	<u>206,895</u>	<u>84,984</u>
Total revenues	<u>6,777,666</u>	<u>6,142,373</u>
Expenses		
Instruction	2,953,047	3,276,535
Support services	2,116,163	2,019,341
Community services	202,172	121,543
Food service	220,214	235,423
Interest on long-term obligations	313,015	57,225
Depreciation - Unallocated	<u>13,209</u>	<u>13,607</u>
Total expenses	5,817,820	5,723,674
Change in net position	959,846	418,699
Net position, beginning of year	(1,496,713)	(1,915,412)
Net position, end of year	<u>\$ (536,867)</u>	<u>\$ (1,496,713)</u>

District Governmental Activities

The financial performance of the District as a whole is reflected in its governmental funds. As the district completed the year, its governmental funds reported combined fund balances of \$9,270,284. This is an increase of \$7,308,991 due primarily to the bond proceeds for the construction project.

The District's financial condition has been impacted by a number of factors.

- The District continues to contract with a third party provider for supporting services as well as student transportation services.
- Full-time equivalent students enrolled in the District decreased from 399.09 (February 2018) to 360.13 (February 2019 count). North Huron Schools does participate in school of choice and open enrollment to attract new students to the District.
- The District's payment into the Michigan Public School Employees' Retirement System (MPERS) ranged from 33.17% to 39.37% of qualified wages in 2018-19. 12.21% of this cost was offset by State categorical revenues.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

General Fund Budget Highlights

During the 2019 fiscal year, the District's original budget was amended to reflect changes which affected the District. These changes included adjustments for the final student count, adjustments to the State revenue projections and the final determination of grant awards.

The final amended budget reported revenue and other financing sources greater than expenditures and other financing uses by \$16,781. Final results showed that revenues were \$7,598 less than anticipated, and expenditures were \$66,093 less than anticipated. The net result after other financing sources and (uses) was a change in the fund balance of \$75,276, increasing the fund balance to \$1,573,378. This is approximately 33% of the annual general fund expenditures.

Overall, the difference between the District's final amended budget and end of the year figures amounted to a \$58,495 variance. The variance was primarily due to less expenditures than expected.

Community Service Fund

The Community Service Fund added preschool services and generated \$35,969 in revenue. Total revenue increased \$34,754. However, expenditures increased \$75,836 requiring an operating transfer from the General Fund of \$84,200.

Capital Projects Fund

The Capital Projects Fund had a new bond issue on August 2, 2018 in the amount of \$7,870,000. The District is well into phase 1 of construction improvements for the District.

Debt Service Fund

Property taxes increased \$397,356. Principal payments increased \$210,000. Interest and fiscal charges increased \$144,546. Overall the fund balance increased \$164,481 for fiscal year 2019. Additional information can be found in the combining statements on page 46.

Food Service Fund

Local revenue increased \$796; Federal reimbursements decreased \$8,704 and state reimbursements decreased \$385. Overall revenue decreased \$8,293 from 2018.

On the expenditure side, food cost decreased \$6,979, and wages and employee benefits decreased \$9,154. The overall change in expenditures was a decrease of \$15,209 over 2018.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District added \$12,000 in capital assets and \$963,185 phase 1 construction in progress during the fiscal year. There were no capital asset disposals in 2018-2019.

(Continued)

**North Huron Schools Capital Assets
(Net of Depreciation)**

	<u>2019</u>	<u>2018</u>
Land	\$ 20,300	\$ 20,300
Construction in progress	963,185	-
Buildings and additions	6,025,644	6,240,364
Furniture and equipment	211,044	233,977
Transportation equipment	<u>90,069</u>	<u>114,755</u>
Totals	<u>\$ 7,310,242</u>	<u>\$ 6,609,396</u>

Long-term Obligations

At year-end, the District had over \$8.9 million in general obligation bonds and other long-term obligations outstanding. The District issued bonds in August 2018 in the amount of \$7,870,000 for major renovations to the school facilities. During fiscal year 2019, the District repaid \$1,140,000 in principal. Included in long-term obligations is the Port Hope Community School 2015 Refunding Bonds in the amount of \$1,100,000. The long-term obligations consisted of the following:

	<u>2019</u>	<u>2018</u>
<u>Port Hope obligations:</u>		
General obligation bonds (financed with property taxes)	\$ 1,127,746	\$ 1,347,643
<u>North Huron obligations:</u>		
General obligation bonds (financed with property taxes)	7,710,147	695,000
Compensated absences	<u>124,998</u>	<u>119,453</u>
Totals	<u>\$ 8,962,891</u>	<u>\$ 2,162,096</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

- The foundation allowance for the District for 2019-20 school year will be \$8,232, up \$224 from the previous year. At-Risk funding will decrease approximately \$19,000, and Federal Title I and Title II programs will decrease for the coming school year by an estimated \$14,000 and \$13,000, respectively.
- Student enrollment for 2019-20 is projected to be 355, which is a decrease of 5 students from the prior spring count.
- To attract new students to the District, North Huron contracted with the local Intermediate School District to house a Great Start Readiness Program beginning with the 2016-17 school year. An Early Learning Center-Day Care was also added in June of 2017 and participation has continued to increase.

- A 2018 Building and Site Bond Proposal for \$7.87 million for 11 years was approved by voters in May 2018. Part of the bond will be used to expand the agriculture program and the manufacturing & robotics labs. Phase 1 was mostly completed over the summer.
- The District had filed Protective Claims via Form 941-X for FICA withheld on the 3% Healthcare Portion of Michigan Public School Employee Retirement System beginning with 2010. The IRS has started issuing refunds for FICA tax withheld on the 3% Healthcare Portion that employees “elected” to have withheld beginning February 2013. The District has received refund checks for 18 of the 19 quarters thus far.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, North Huron Schools, 21 East Main Street, Kinde, MI 48445

BASIC FINANCIAL STATEMENTS

NORTH HURON SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2019

	GOVERNMENTAL ACTIVITIES
ASSETS:	
Cash and deposits	\$ 1,260,566
Investments	950,151
Receivables:	
Accounts receivable	16,930
Due from other governmental units	442,197
Inventory	3,222
Prepaid expenses	13,630
Restricted investments - capital projects	7,522,347
Nondepreciated capital assets	983,485
Depreciated capital assets	14,023,858
Less: Accumulated depreciation	(7,697,101)
TOTAL ASSETS	<u>17,519,285</u>
 DEFERRED OUTFLOWS OF RESOURCES:	
Deferred charge on bond refunding	23,567
Related to other postemployment benefits	321,473
Related to pensions	2,462,986
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>2,808,026</u>

NORTH HURON SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2019

	<u>GOVERNMENTAL ACTIVITIES</u>
LIABILITIES:	
Accounts payable	\$ 490,236
Accrued salaries and related items	247,757
Voluntary incentive pay	30,000
Accrued retirement	102,646
Accrued interest payable	41,710
Accrued expenses	85,323
Unearned revenue	12,797
Noncurrent liabilities:	
Due within one year	1,171,918
Due in more than one year	7,790,973
Net other postemployment benefits liability	1,943,735
Net pension liability	7,357,819
TOTAL LIABILITIES	<u>19,274,914</u>
 DEFERRED INFLOWS OF RESOURCES:	
Related to other postemployment benefits	481,979
Related to pensions	836,737
Related to state aid funding for pensions	270,548
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,589,264</u>
 NET POSITION:	
Net investment in capital assets	5,994,696
Restricted for:	
Debt service	350,835
Library fund	191,568
Community service	3,392
Food service	38,355
Unrestricted	(7,115,713)
TOTAL NET POSITION	<u>\$ (536,867)</u>

The accompanying notes are an integral part of the financial statements.

NORTH HURON SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUE		GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
Governmental activities:				
Instruction	\$ 2,953,047	\$ 4,800	1,386,945	\$ (1,561,302)
Support services	2,116,163	29,088	72,510	(2,014,565)
Community services	202,172	107,558	3,580	(91,034)
Food service	220,214	68,425	156,093	4,304
Interest on long-term obligations	313,015	-	-	(313,015)
Depreciation - Unallocated	13,209	-	-	(13,209)
Total governmental activities:	<u>\$ 5,817,820</u>	<u>\$ 209,871</u>	<u>\$ 1,619,128</u>	<u>(3,988,821)</u>
General revenues:				
Property taxes, levied for general purposes				3,102,797
Property taxes, levied for debt service				1,520,082
State sources - unrestricted				118,893
Investment earnings				186,921
Miscellaneous				19,974
Total general revenues				<u>4,948,667</u>
CHANGE IN NET POSITION				<u>959,846</u>
NET POSITION, beginning of year				(1,496,713)
NET POSITION, end of year				<u>\$ (536,867)</u>

NORTH HURON SCHOOLS

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019**

	<u>GENERAL</u>	<u>COMMUNITY SERVICE</u>	<u>COMBINED DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS						
Cash and deposits	\$ 851,049	\$ -	\$ 394,026	\$ -	\$ -	\$ 1,245,075
Restricted cash	-	-	-	7,522,347	15,491	7,537,838
Investments	758,583	-	-	-	191,568	950,151
Accounts receivable	14,350	2,365	215	-	-	16,930
Due from other governmental units	440,344	-	-	-	1,853	442,197
Due from other funds	444,149	331,510	-	-	148,748	924,407
Inventory	-	-	-	-	3,222	3,222
Prepaid expenditures	12,841	-	-	-	789	13,630
TOTAL ASSETS	<u>\$ 2,521,316</u>	<u>\$ 333,875</u>	<u>\$ 394,241</u>	<u>\$ 7,522,347</u>	<u>\$ 361,671</u>	<u>\$ 11,133,450</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable	\$ 32,398	\$ 2,526	\$ -	\$ 455,312	\$ -	\$ 490,236
Due to other funds	478,562	326,104	1,696	-	118,045	924,407
Accrued salaries and related items	240,161	1,469	-	-	6,127	247,757
Accrued retirement	100,749	358	-	-	1,539	102,646
Accrued expenses	83,297	-	-	-	2,026	85,323
Unearned revenue	12,771	26	-	-	-	12,797
TOTAL LIABILITIES	<u>947,938</u>	<u>330,483</u>	<u>1,696</u>	<u>455,312</u>	<u>127,737</u>	<u>1,863,166</u>
FUND BALANCES:						
Nonspendable:						
Inventory	-	-	-	-	3,222	3,222
Prepaid expenditures	12,841	-	-	-	789	13,630
Restricted for:						
Food service	-	-	-	-	38,355	38,355
Debt service	-	-	392,545	-	-	392,545
Community service	-	3,392	-	-	-	3,392
Library	-	-	-	-	191,568	191,568
Capital projects	-	-	-	7,067,035	-	7,067,035
Assigned for:						
Subsequent year expenditures	2,769	-	-	-	-	2,769
Unassigned	1,557,768	-	-	-	-	1,557,768
TOTAL FUND BALANCES	<u>1,573,378</u>	<u>3,392</u>	<u>392,545</u>	<u>7,067,035</u>	<u>233,934</u>	<u>9,270,284</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,521,316</u>	<u>\$ 333,875</u>	<u>\$ 394,241</u>	<u>\$ 7,522,347</u>	<u>\$ 361,671</u>	<u>\$ 11,133,450</u>

The accompanying notes are an integral part of the financial statements.

NORTH HURON SCHOOLS

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
GOVERNMENTAL ACTIVITIES NET POSITION
JUNE 30, 2019**

TOTAL GOVERNMENTAL FUND BALANCES \$ 9,270,284

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

Deferred charge on bond refunding		23,567
Deferred outflows of resources - related to pensions		2,462,986
Deferred inflows of resources - related to pensions		(836,737)
Deferred outflows of resources - related to other postemployment benefits		321,473
Deferred inflows of resources - related to other postemployment benefits		(481,979)
Deferred inflows of resources - related to state funding for pensions		(270,548)

Capital assets used in governmental activities are not financial resources, and therefore are not reported as assets in governmental funds.

	The cost of capital assets is	\$ 15,007,343	
	Accumulated depreciation is	<u>(7,697,101)</u>	7,310,242

Certain transactions related to the advance refunding of the bonds are reported as revenue and expenditures in the fund financial statements, however they are reported as assets or liabilities in the government-wide financial statements.

	2005 Refunding bonds issued at a premium	(126,191)	
	Less: Amortization of bond premium	<u>28,298</u>	(97,893)

Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

	Bonds payable	8,740,000	
	Compensated absences	124,998	
	Voluntary incentive pay	30,000	
	Accrued interest payable	41,710	
	Net other postemployment benefits liability	1,943,735	
	Net pension liability	<u>7,357,819</u>	(18,238,262)

NET POSITION - GOVERNMENTAL ACTIVITIES \$ (536,867)

NORTH HURON SCHOOLS

**STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019**

	<u>GENERAL</u>	<u>COMMUNITY SERVICE</u>	<u>COMBINED DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUE:						
Local sources:						
Taxes	\$ 3,102,797	\$ -	\$ 1,520,082	\$ -	\$ -	\$ 4,622,879
Community service	-	107,558	-	-	-	107,558
Food service	-	-	-	-	67,793	67,793
Interest	24,493	-	6,100	151,200	5,128	186,921
Intermediate school district	385,943	-	-	-	-	385,943
Other local revenue	55,098	-	-	-	632	55,730
Total local sources	<u>3,568,331</u>	<u>107,558</u>	<u>1,526,182</u>	<u>151,200</u>	<u>73,553</u>	<u>5,426,824</u>
State sources	937,552	-	-	-	10,360	947,912
Federal sources	241,617	3,580	-	-	145,733	390,930
TOTAL REVENUE	<u>4,747,500</u>	<u>111,138</u>	<u>1,526,182</u>	<u>151,200</u>	<u>229,646</u>	<u>6,765,666</u>
EXPENDITURES:						
Instruction	2,650,720	-	-	-	-	2,650,720
Supporting services	1,937,703	-	-	-	-	1,937,703
Community services	9,469	192,703	-	-	-	202,172
Food service	-	-	-	-	220,214	220,214
Capital projects	-	-	-	966,681	-	966,681
Debt service:						
Principal repayment	-	-	1,140,000	-	-	1,140,000
Interest and fiscal charges	-	-	221,701	64,710	-	286,411
TOTAL EXPENDITURES	<u>4,597,892</u>	<u>192,703</u>	<u>1,361,701</u>	<u>1,031,391</u>	<u>220,214</u>	<u>7,403,901</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>149,608</u>	<u>(81,565)</u>	<u>164,481</u>	<u>(880,191)</u>	<u>9,432</u>	<u>(638,235)</u>
OTHER FINANCING SOURCES (USES):						
Bond proceeds	-	-	-	7,947,226	-	7,947,226
Other financing sources (uses)	10,000	-	-	-	(10,000)	-
Transfers in (out)	(84,332)	84,200	-	-	132	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(74,332)</u>	<u>84,200</u>	<u>-</u>	<u>7,947,226</u>	<u>(9,868)</u>	<u>7,947,226</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>75,276</u>	<u>2,635</u>	<u>164,481</u>	<u>7,067,035</u>	<u>(436)</u>	<u>7,308,991</u>
FUND BALANCE - JULY 1	1,498,102	757	228,064	-	234,370	1,961,293
FUND BALANCE - JUNE 30	<u>\$ 1,573,378</u>	<u>\$ 3,392</u>	<u>\$ 392,545</u>	<u>\$ 7,067,035</u>	<u>\$ 233,934</u>	<u>\$ 9,270,284</u>

The accompanying notes are an integral part of the financial statements.

NORTH HURON SCHOOLS

**RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGE IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 7,308,991

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and are allocated over their estimated useful lives as annual depreciation expense in the statement of activities.

Depreciation expense	\$ (274,339)	
Capital outlays	<u>975,185</u>	700,846

Accrued interest on bonds is recorded in the statement of activities when incurred; but it is not recorded in the governmental funds until it is paid.

Accrued interest payable, beginning of year	7,289	
Accrued interest payable, end of year	<u>(41,710)</u>	(34,421)

Bond proceeds and repayments are reported as revenue and expenditures in the fund financial statements and do not affect the statement of activities.

Proceeds from long-term debt	(7,870,000)	
Repayment of bond principal	<u>1,140,000</u>	(6,730,000)

Certain transactions related to the advance refunding of the bonds are reported as revenue and expenditures in the fund financial statements, however they are reported as assets or liabilities in the government-wide financial statements. The transactions include the following:

Amortization of bond premium	(65,250)	
Deferred loss on bond refunding	<u>(4,159)</u>	(69,409)

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

Accrued compensated absences, beginning of year	119,453	
Accrued compensated absences, end of year	<u>(124,998)</u>	(5,545)

Accrued voluntary incentive pay is recorded in the statement of activities when incurred, but it is not recorded in the governmental funds until it is paid.

Accrued voluntary incentive pay, beginning of year	25,000	
Accrued voluntary incentive pay, end of year	<u>(30,000)</u>	(5,000)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Other postemployment benefit items	82,356	
Pension related items		(272,139)

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, beginning of year	254,715	
State aid funding for pension, end of year	<u>(270,548)</u>	(15,833)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 959,846

NORTH HURON SCHOOLS

**STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2019**

	<u>AGENCY FUNDS</u>
ASSETS	
Cash and deposits	\$ 79,111
TOTAL ASSETS	<u>\$ 79,111</u>
LIABILITIES:	
Due to student groups	\$ 79,111
TOTAL LIABILITIES	<u>\$ 79,111</u>

The accompanying notes are an integral part of the financial statements.

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The North Huron School District is a consolidated school system located in Huron County, Michigan. The School has approximately 411 students in grades kindergarten through twelve. The School operates under a seven person elected Board of Education.

The basic financial statements of the North Huron Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental 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.

The Reporting Entity:

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

Government-wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type activities. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services 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. State foundation aid, taxes, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net position, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts – net investment in capital assets; restricted; and unrestricted.

The District first utilizes restricted resources to finance qualifying activities.

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Government-wide and Fund Financial Statements: (Continued)

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, state sources, intermediate district sources, interest income and other revenues.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

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

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

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 *community service fund* is a special revenue fund used to account for revenue sources and expenditures for the operations of the early learning and day care center at the District.

The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the governmental funds.

The *capital projects fund* accounts for the receipt of bond proceeds and the acquisition of capital assets or construction of major capital projects.

The 2018 School Building and Site Bonds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of Section 1351(a)(2) of the Revised School Code.

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Governmental Funds: (Continued)

Beginning with the year of bond issuance, the District has reported the annual construction activity in the 2018 capital projects fund. The capital projects fund accounts for the revenue and expenditures that are related to the proceeds from the issuance of the general obligation bonds that are for the purpose of defraying the cost of erecting, furnishing and equipping additions to and partially remodeling, furnishing and refurbishing, equipping and re-equipping school facilities, improving athletic facilities and playgrounds, and purchasing school buses and developing and improving sites.

The following is a summary of the revenue and expenditures for the 2018 School Building and Site bond activity since inception of the fund through the current fiscal year:

Revenue and other financing sources	\$ 8,098,426
Expenditures and outgoing transfers	\$ 1,031,391
Net bond proceeds included in revenue	\$ 7,870,000

Other Non-major Funds:

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its library and food service fund in special revenue funds.

The *fiduciary funds* account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide financial statements.

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

Measurement Focus, Basis of Accounting and Basis of Presentation:

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue 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.

Modified Accrual Method

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

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting and Basis of Presentation: (Continued)

Modified Accrual Method (Continued)

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

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 and October of the previous year.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes (formerly known as Non-Homestead) which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The state revenue is recognized during the foundation period and is funded through payments from October 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. Categorical funds which are not expended by the close of the fiscal year are recorded as unearned revenue.

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

Other Accounting Policies:

Cash and Equivalents

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

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. The 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.

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Investments (Continued)

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

Receivables and Payables

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

Inventory and Prepaid Items

Inventory is valued at the lower of cost or net realized value using the first-in, first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as an expenditure when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses/expenditures.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market 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 asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining estimated useful lives of the related capital assets.

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

Buildings and additions	50 years
Furniture and other equipment	5 – 15 years

The District's capitalization policy is to capitalize assets with an initial individual cost of \$3,000 or more. Group purchases are evaluated on a case-by-case basis.

Defined Benefit Plan

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

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Deferred Outflows/Inflows of Resources

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

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

Compensated Absences

The District's policies generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses/expenditures in the year in which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NORTH HURON SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Fund Balance

The District implemented GASB Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions.*” This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.

Restricted fund balance – amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District’s Library fund, Debt Service fund, Capital Projects fund, Food Service fund, and Community Service fund balances are considered restricted.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

Assigned fund balance – amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.

Property Taxes

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

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

<u>Fund</u>	<u>Mills</u>
General Fund:	
Non-Principal Resident Exemption (PRE)	18.000
Commercial Personal Property	6.000
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property – North Huron	2.600
PRE, Non-PRE, Commercial Personal Property – Port Hope	1.900

NORTH HURON SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Use of Estimates:

The process of preparing financial statements in conformity with U.S. GAAP 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 accounts.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Annual budgets are adopted on a basis consistent with U.S. GAAP for the general fund and special revenue funds. The capital projects funds are appropriated on a project-length basis. Other funds do not have appropriated budgets.

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

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The Board of Education requires that the budget be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to July 1, the budget is legally enacted by a School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. Formal budgetary integration is employed as a management control device during the year for the General, Debt Service, Library, Community Service, and Food Service Funds.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2019.

During the year ended June 30, 2019, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Food Service Fund	\$ 219,415	\$ 220,214	\$ 799

NORTH HURON SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 – DEPOSITS AND INVESTMENTS:

A reconciliation of cash and investments as shown on the Statement of Net Position and Statement of Fiduciary Net Position follows:

Statement of Net Position

Government-wide Financial Statement Captions:

Cash and deposits	\$1,260,566
Investments	950,151
Restricted investments - capital projects	7,522,347

Statement of Fiduciary Net Position

Cash and deposits	79,111
Total	<u>\$9,812,175</u>

Notes to Financial Statements

Deposits	\$1,356,580
Cash on hand	20
Investments	8,455,575
Total	<u>\$9,812,175</u>

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

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's rating</u>	<u>%</u>
MILAF External Investment pool - CMC	\$7,696,992	0.0027	AAAm	91.0%
MILAF External Investment pool - MAX	758,583	0.0027	AAAm	9.0%
Total fair value	<u>\$8,455,575</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals approximately .0027 years.

The District voluntarily invests certain excess funds in external pooled investment funds which include money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximates fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 3 – DEPOSITS AND INVESTMENTS: (CONTINUED)

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

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

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

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2019, \$1,277,701 of the District's bank balance of \$1,527,701 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount is \$1,356,608.

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

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the District will do business.

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

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

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

NORTH HURON SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 – DEPOSITS AND INVESTMENTS: (CONTINUED)

Fair value measurement (Continued)

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

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

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

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

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES:

<u>Fund</u>	<u>Interfund receivable</u>	<u>Interfund payable</u>
General Fund	\$ 444,149	\$478,562
Food Service	148,748	118,045
Debt Service	-	1,696
Community Service Fund	<u>331,510</u>	<u>326,104</u>
Total	<u>\$ 924,407</u>	<u>\$924,407</u>

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

The General Fund transferred \$84,200 to the Community Service Fund and \$132 to Food Service Fund to support operations.

NOTE 5 - RECEIVABLES:

Receivables at June 30, 2019 from other governmental units consist of the following:

Local revenue	\$ 113,057
State revenue	144,501
Federal revenue	<u>184,639</u>
Total	<u>\$ 442,197</u>

Amounts due from governmental units 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 uncollectible accounts has been recorded.

NORTH HURON SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 – CAPITAL ASSETS:

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

	<u>2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>2019</u>
Assets not being depreciated:				
Land	\$ 20,300	\$ -	\$ -	\$ 20,300
Construction in progress	<u>-</u>	<u>963,185</u>	<u>-</u>	<u>963,185</u>
Total assets not being depreciated	<u>20,300</u>	<u>963,185</u>	<u>-</u>	<u>983,485</u>
Capital assets, being depreciated:				
Buildings and additions	12,603,351	-	-	12,603,351
Furniture and equipment	778,315	12,000	-	790,315
Transportation equipment	630,192	-	-	630,192
Total capital assets being depreciated	<u>14,011,858</u>	<u>12,000</u>	<u>-</u>	<u>14,023,858</u>
Accumulated depreciation:				
Buildings and additions	6,362,987	214,720	-	6,577,707
Furniture and equipment	544,338	34,933	-	579,271
Transportation equipment	<u>515,437</u>	<u>24,686</u>	<u>-</u>	<u>540,123</u>
Total accumulated depreciation	7,422,762	274,339	-	7,697,101
Net capital assets	<u>\$6,609,396</u>	<u>\$ 700,846</u>	<u>\$ -</u>	<u>\$7,310,242</u>

Depreciation expense was charged to programs of the primary government as follows:

Instruction	\$ 137,860
Support services	117,849
Athletics	5,421
Unallocated	<u>13,209</u>
Total depreciation	<u>\$ 274,339</u>

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 7 - LONG-TERM OBLIGATIONS:

The following is a summary of the debt transactions of the District for the year ended June 30, 2019:

	<u>2018</u>	<u>Additions</u>	<u>Payments</u>	<u>2019</u>	<u>Due within one year</u>
<u>Port Hope</u>					
2015 refunding bonds	\$1,315,000	\$ -	\$ 215,000	\$1,100,000	\$ 215,000
Issuance premium	32,643	-	4,897	27,746	4,897
<u>North Huron</u>					
2018 school bonds	-	7,870,000	700,000	7,170,000	715,000
2014 school tech bonds	695,000	-	225,000	470,000	230,000
Issuance premium	-	77,226	7,079	70,147	7,021
Compensated absences	<u>119,453</u>	<u>5,545</u>	<u>-</u>	<u>124,998</u>	<u>-</u>
Totals	<u>\$2,162,096</u>	<u>\$7,952,771</u>	<u>\$1,151,976</u>	<u>\$8,962,891</u>	<u>\$1,171,918</u>

The District issued 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. Long-term obligations currently outstanding are as follows:

Port Hope Obligations

2015 refunding bonds due in annual installments of \$210,000 to \$230,000 through May 2024 with interest between 2.0% and 3.0%	\$1,100,000
Plus issuance premium	27,746

North Huron Obligations

2014 School Technology Bonds due in annual installments of \$25,000 to \$240,000, starting May 1, 2017 through May 1, 2021 with net interest of \$2.20% by maturity	470,000
2018 School Building and Site Bonds in annual installments of \$700,000 to \$720,000, starting May 1, 2019 through May 1, 2029 with interest at 3.0%.	7,170,000
Plus issuance premium	<u>70,147</u>
Total general obligation bonds	8,837,893
Compensated absences	<u>124,998</u>
Total general long-term obligations	<u>\$8,962,891</u>

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2019, \$1,150,000 of bonds outstanding are considered defeased.

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 7 - LONG-TERM OBLIGATIONS: (CONTINUED)

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

Years ending	<u>Port Hope</u>		<u>North Huron</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
<u>June 30,</u> 2020	\$ 215,000	\$24,100	\$ 945,000	\$ 226,160	\$ 1,410,260
2021	220,000	19,800	955,000	199,650	1,394,450
2022	225,000	15,400	715,000	172,200	1,127,600
2023	230,000	10,900	715,000	150,750	1,106,650
2024	210,000	6,300	715,000	129,300	1,060,600
2025-2029	-	-	3,595,000	323,850	3,918,850
Issuance premium	<u>27,746</u>	-	<u>70,147</u>	-	<u>97,893</u>
Totals	<u>\$1,127,746</u>	<u>\$76,500</u>	<u>\$7,710,147</u>	<u>\$1,201,910</u>	<u>\$10,116,303</u>

Interest expense (all funds) for the year ended June 30, 2019 was approximately \$313,000.

NOTE 8 – PENSION AND OTHER POSTEMPLOYMENT BENEFITS:

Plan Description

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

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 Employee's Retirement Act.

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

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 8 – PENSION AND OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Benefits Provided - Overall

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

<u>Plan name</u>	<u>Plan type</u>	<u>Plan status</u>
Basic	Defined benefit	Closed
Member Investment Plan (MIP)	Defined benefit	Closed
Pension Plus	Hybrid	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined contribution	Open

Benefits Provided - Pension

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

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

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 8 – PENSION AND OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Pension Reform 2012 (Continued)

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 thereafter would include a 1.25% pension factor.

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

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

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

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 8 – PENSION AND OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Pension Reform 2012 (Continued)

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

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

Pension Reform of 2017

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

Benefits Provided – Other postemployment benefit (OPEB)

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

Retiree Healthcare Reform of 2012

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

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 8 – PENSION AND OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Retiree Healthcare Reform of 2012 (Continued)

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

Regular Retirement (no reduction factor for age)

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

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

Member Contributions

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

Employer Contributions

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

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 8 – PENSION AND OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Employer Contributions (Continued)

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 ORS. The range of rates is as follows:

	<u>Pension</u>	<u>Other postemployment benefit</u>
October 1, 2017 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%
October 1, 2018 - September 30, 2019	13.39% - 19.59%	7.57% - 7.93%

The District's pension contributions for the year ended June 30, 2019 were equal to the required contribution total. Pension contributions were approximately \$604,759, with \$587,099 specifically for the Defined Benefit Plan.

The District's OPEB contributions for the year ended June 30, 2019 were equal to the required contribution total. OPEB benefits were approximately \$166,705, with \$156,391 specifically for the Defined Benefit Plan.

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

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 \$7,357,819 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 .02448% and .02484%.

<u>MPSERS (Plan) Non-university employers:</u>	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Total pension liability	\$ 79,863,694,444	\$ 72,407,218,688
Plan fiduciary net position	\$ 49,801,889,205	\$ 46,492,967,573
Net pension liability	\$ 30,061,805,239	\$ 25,914,251,115
Proportionate share	0.02448%	0.02484%
Net pension liability for the District	\$ 7,357,819	\$ 6,438,035

NORTH HURON SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 – PENSION AND OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

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

For the year ended June 30, 2019, the District recognized pension expense of \$913,625.

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

	<u>Deferred outflows of resources</u>	<u>Deferred (inflows) of resources</u>
Differences between actual and expected experience	\$ 34,142	\$ (53,468)
Changes of assumptions	1,704,065	-
Net difference between projected and actual earnings on pension plan investment	-	(503,088)
Changes in proportion and differences between employer contributions and proportionate share of contributions	196,205	(280,181)
Reporting Unit's contributions subsequent to the measurement date	<u>528,574</u>	<u>-</u>
Total	<u>\$2,462,986</u>	<u>\$ (836,737)</u>

\$528,574 reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

<u>Years ending September 30,</u>	<u>Amount</u>
2019	\$ 468,363
2020	\$ 327,287
2021	\$ 215,032
2022	\$ 86,993

NORTH HURON SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 – PENSION AND OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

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

OPEB Liabilities

At June 30, 2019, the District reported a liability of \$1,943,735 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 0.02445% and 0.02498%.

<u>MPSERS (Plan) Non-university employers</u>	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Total other postemployment benefit liability	\$ 13,932,170,264	\$ 13,920,945,991
Plan fiduciary net position	\$ 5,983,218,473	\$ 5,065,474,948
Net other postemployment benefit liability	\$ 7,948,951,791	\$ 8,855,471,043
Proportionate share	0.02445%	0.02498%
Net other postemployment benefit liability for the District	\$ 1,943,735	\$ 2,212,478

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

For the year ended June 30, 2019, the District recognized OPEB expense of \$85,013.

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

	<u>Deferred outflows of resources</u>	<u>Deferred (inflows) of resources</u>
Difference between actual and expected experience	\$ -	\$ (361,779)
Changes of assumptions	205,843	-
Net difference between projected and actual earnings on OPEB plan investments	-	(74,702)
Changes in proportion and differences between employer contributions and proportionate share of contributions	63	(45,498)
Reporting Unit's contributions subsequent to the measurement date	<u>115,567</u>	<u>-</u>
Totals	<u>\$ 321,473</u>	<u>\$ (481,979)</u>

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 8 – PENSION AND OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

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

\$115,567, reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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

<u>Years ending September 30,</u>	<u>Amount</u>
2019	\$ (66,827)
2020	(66,827)
2021	(66,827)
2022	(51,590)
2023	(24,002)

Actuarial Assumptions

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

Investment rate of return for OPEB – 7.15% per 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.

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 8 – PENSION AND OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Actuarial Assumptions (Continued)

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% in year twelve.

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

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

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

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

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

<u>Investment Category</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return*</u>
Domestic Equity Pools	28.00%	5.70%
Private Equity Pools	18.00%	9.20%
International Equity Pools	16.00%	7.20%
Fixed Income Pools	10.50%	0.50%
Real Estate and Infrastructure Pools	10.00%	3.90%
Absolute Return Pools	15.50%	5.20%
Short Term Investment Pools	2.00%	0.00%
	<u>100.00%</u>	

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

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 8 – PENSION AND OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Actuarial Assumptions (Continued)

Pension discount rate – A single discount rate of 7.05% was used to measure the total pension liability (7.0% for 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 single discount rate assumed that plan members contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

Sensitivity of the net pension liability to changes in the discount rate - The following presents the Reporting Unit’s proportionate share of the net pension liability calculated using a single discount rate of 7.05% (7.0% for Pension Plus Plan and 6.00% for the Pension Plus 2 Plan), as well as what the Reporting Unit’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Pension		
	1% Decrease	Discount rate	1% Increase
Reporting Unit’s proportionate share of the net pension liability	<u>\$9,660,248</u>	<u>\$7,357,819</u>	<u>\$5,444,875</u>

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

	Other postemployment benefit		
	1% Decrease	Discount rate	1% Increase
Reporting Unit’s proportionate share of the net other postemployment benefits liability	<u>\$2,333,414</u>	<u>\$1,943,735</u>	<u>\$1,615,967</u>

NORTH HURON SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 – PENSION AND OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Actuarial Assumptions (Continued)

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

	Other postemployment benefit		
	1% trend decrease	Healthcare cost trend rates	1% trend increase
Reporting Unit’s proportionate share of the net other postemployment benefits liability	<u>\$1,598,701</u>	<u>\$1,943,735</u>	<u>\$2,339,560</u>

Pension and OPEB Plan Fiduciary Net Position

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

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

NOTE 9 - OPERATING LEASES:

The School District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the unpaid balances of the lease agreements are not reflected in the School District’s long-term debt.

The following is a schedule by year of future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2019.

Years ending	
<u>June 30,</u>	<u>Amount</u>
2020	\$ 11,436
2021	11,436
2022	11,436
2023	<u>2,859</u>
Total	<u>\$ 37,167</u>

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 10 - CONTINGENT LIABILITY:

The District is a reimbursing employer for purposes of unemployment insurance claims against the District. The District reimburses the State of Michigan for all benefits charged against it in the event of termination of employment and subsequent claims of its employees. The contingent liability for unemployment insurance claims is not recognized in the accompanying financial statements. This expense is recognized as incurred.

NOTE 11 - RISK MANAGEMENT:

General Liability

The School District participates in the MASB-SEG Property/Casualty Pool, Inc. for the coverage of significant losses due to its general liability. The participation in the pool constitutes transfer of the risk for significant losses with a limit of \$5 million per occurrence for real and personal property losses and a limit of \$5 million in the aggregate for personal injury. For automotive liability, the pool constitutes transfer of the risk with a limit of \$5 million for bodily injury and property damage combined. For excess liability, there is a limit of \$1 million for each occurrence. The School District is required to pay an annual premium to the MASB-SEG Property/Casualty Pool, Inc. for the liability coverage. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Worker's Compensation

The School District is insured through SET/SEG Workers Compensation Disability Compensation for losses related to workers' compensation claims.

Employee Health Care

The School District uses HealthPlus for health insurance coverage for its employees and their dependents.

NOTE 12 – UPCOMING ACCOUNTING STANDARDS:

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

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 12 – UPCOMING ACCOUNTING STANDARDS: (CONTINUED)

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

REQUIRED SUPPLEMENTARY INFORMATION

NORTH HURON SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2019**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUE:				
Local sources:				
Taxes	\$ 2,918,932	\$ 3,094,129	\$ 3,102,797	\$ 8,668
Interest	13,701	24,504	24,493	(11)
Athletic activities	43,829	30,323	30,324	1
Intermediate school district	325,000	385,943	385,943	-
Other local revenue	25,199	24,047	24,774	727
	<hr/>	<hr/>	<hr/>	<hr/>
Total local sources	3,326,661	3,558,946	3,568,331	9,385
State sources	1,119,280	947,252	937,552	(9,700)
Federal sources	182,500	248,900	241,617	(7,283)
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL REVENUE	4,628,441	4,755,098	4,747,500	(7,598)
EXPENDITURES:				
Instruction				
Pre-kindergarten	121,762	113,888	112,478	1,410
Elementary	759,859	716,120	704,417	11,703
Secondary	943,126	1,049,128	1,039,160	9,968
Compensatory education	323,995	196,378	193,398	2,980
Vocational education	167,337	177,537	170,122	7,415
Special education	423,896	432,630	431,145	1,485
Total instruction	<hr/>	<hr/>	<hr/>	<hr/>
	2,739,975	2,685,681	2,650,720	34,961
Supporting services				
Truance/absenteeism services	1,200	1,200	798	402
Guidance services	55,999	35,401	34,128	1,273
Other pupil support services	15,259	8,283	7,687	596
Academic student assessment	95,887	89,308	88,617	691
Improvement of instruction	46,975	189,659	186,705	2,954
Library	3,630	2,718	2,718	-
Instructional related technology	11,200	17,021	17,755	(734)
Supervision and direction of instructional staff	36,144	69,967	69,623	344
Board of education	52,540	46,357	40,517	5,840
Executive and administration	253,943	239,766	236,846	2,920
School administration	311,176	232,067	229,701	2,366
Fiscal services	110,200	108,191	107,772	419
Internal services	4,300	4,300	3,500	800
Other business services	19,174	1,732	1,732	-
Operation and maintenance of plant	425,186	437,091	429,087	8,004
Pupil transportation	276,333	262,581	259,143	3,438
Support services - Central	56,299	51,158	50,663	495
Athletics	163,230	170,786	170,711	75
Total supporting services	<hr/>	<hr/>	<hr/>	<hr/>
	1,938,675	1,967,586	1,937,703	29,883
Community services	5,865	10,718	9,469	1,249
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	4,684,515	4,663,985	4,597,892	66,093

(Continued)

NORTH HURON SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2019

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(56,074)</u>	<u>91,113</u>	<u>149,608</u>	<u>58,495</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	45	-	-	-
Indirect costs	10,000	10,000	10,000	-
Operating transfers to other funds	<u>(51,161)</u>	<u>(84,332)</u>	<u>(84,332)</u>	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(41,116)</u>	<u>(74,332)</u>	<u>(74,332)</u>	-
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(97,190)</u>	<u>16,781</u>	<u>75,276</u>	<u>58,495</u>
FUND BALANCE - JULY 1	1,498,102	1,498,102	1,498,102	-
FUND BALANCE - JUNE 30	<u>\$ 1,400,912</u>	<u>\$ 1,514,883</u>	<u>\$ 1,573,378</u>	<u>\$ 58,495</u>

NORTH HURON SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2019**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUE:				
Local sources:				
Community service	85,000	106,999	\$ 107,558	559
Total local sources	<u>85,000</u>	<u>106,999</u>	<u>107,558</u>	<u>559</u>
Federal sources:				
Reimbursements	-	3,580	3,580	-
TOTAL REVENUE	<u>85,000</u>	<u>110,579</u>	<u>111,138</u>	<u>559</u>
EXPENDITURES:				
Community services	125,000	194,686	192,703	1,983
TOTAL EXPENDITURES	<u>125,000</u>	<u>194,686</u>	<u>192,703</u>	<u>1,983</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(40,000)</u>	<u>(84,107)</u>	<u>(81,565)</u>	<u>2,542</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	40,000	84,200	84,200	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>40,000</u>	<u>84,200</u>	<u>84,200</u>	<u>-</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>-</u>	<u>93</u>	<u>2,635</u>	<u>2,542</u>
FUND BALANCE - JULY 1	757	757	757	-
FUND BALANCE - JUNE 30	<u>\$ 757</u>	<u>\$ 850</u>	<u>\$ 3,392</u>	<u>\$ 2,542</u>

NORTH HURON SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED
AS OF PLAN YEAR ENDED SEPTEMBER 30)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.02448%	0.02484%	0.02512%	0.02387%	0.02132%
Reporting unit's proportionate share of net pension liability	\$ 7,357,819	\$ 6,438,035	\$ 6,266,656	\$ 5,829,025	\$ 4,695,506
Reporting unit's covered-employee payroll	\$ 2,084,831	\$ 2,071,039	\$ 2,151,076	\$ 2,014,400	\$ 1,991,568
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	352.92%	310.86%	291.33%	289.37%	235.77%
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	62.36%	64.21%	63.27%	63.17%	66.20%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10 year trend is compiled, reporting units should present information for those years for which information is available.

NORTH HURON SCHOOLS

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 587,099	\$ 595,218	\$ 597,644	\$ 493,861	\$ 424,168
Contributions in relation to statutorily required contributions	587,099	595,218	597,644	493,861	424,168
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 2,019,152	\$ 2,086,350	\$ 2,070,540	\$ 2,124,602	\$ 2,118,126
Contributions as a percentage of covered-employee payroll	29.08%	28.53%	28.86%	23.24%	20.03%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10 year trend is compiled, reporting units should present information for those years for which information is available.

NORTH HURON SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE
SHARE OF THE NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED
AS OF PLAN YEAR ENDED SEPTEMBER 30)**

	<u>2018</u>	<u>2017</u>
Reporting unit's proportion of net OPEB liability (%)	0.02445%	0.02498%
Reporting unit's proportionate share of net OPEB liability	\$ 1,943,735	\$ 2,212,478
Reporting unit's covered-employee payroll	\$ 2,084,831	\$ 2,071,039
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll (%)	93.23%	106.83%
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)	42.95%	36.39%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10 year trend is compiled, reporting units should present information for those years for which information is available.

NORTH HURON SCHOOLS

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

	<u>2019</u>	<u>2018</u>
Statutorily required contributions	\$ 156,391	\$ 131,239
Contributions in relation to statutorily required contributions	156,391	131,239
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 2,019,152	\$ 2,086,350
Contributions as a percentage of covered- employee payroll	7.75%	6.29%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10 year trend is compiled, reporting units should present information for those years for which information is available.

NORTH HURON SCHOOLS

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

Pension Information

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

Changes of assumptions – the assumption changes for 2018 were:

Wages inflation rate decreased to 2.75% from 3.50%

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

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

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

OPEB Information

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

Changes of assumptions – the assumption changes for 2018 were:

Wages inflation rate decreased to 2.75% from 3.50%

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

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

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

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

ADDITIONAL SUPPLEMENTARY INFORMATION

NORTH HURON SCHOOLS

**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2019**

	<u>FOOD SERVICE</u>	<u>LIBRARY</u>	TOTAL NONMAJOR GOVERNMENTAL FUNDS
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash and deposits	\$ 15,491	\$ -	\$ 15,491
Investments	-	191,568	191,568
Due from other governmental units	1,853	-	1,853
Due from other funds	148,748	-	148,748
Inventory	3,222	-	3,222
Prepaid expenditures	789	-	789
TOTAL ASSETS	<u>\$170,103</u>	<u>\$191,568</u>	<u>\$ 361,671</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
LIABILITIES:			
Due to other funds	\$ 118,045	\$ -	\$ 118,045
Accrued salaries and related items	6,127	-	6,127
Accrued retirement	1,539	-	1,539
Accrued expenses	2,026	-	2,026
TOTAL LIABILITIES	127,737	-	127,737
 FUND BALANCES	 42,366	 191,568	 233,934
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$170,103</u>	 <u>\$191,568</u>	 <u>\$ 361,671</u>

NORTH HURON SCHOOLS

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019**

	<u>FOOD SERVICE</u>	<u>LIBRARY</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
REVENUE:			
Local sources:			
Student and adult lunches	\$ 67,793	\$ -	\$ 67,793
Interest	19	5,109	5,128
Miscellaneous	632	-	632
Total local sources	<u>68,444</u>	<u>5,109</u>	<u>73,553</u>
State sources	10,360	-	10,360
Federal sources:			
Reimbursements	132,373	-	132,373
Commodities	13,360	-	13,360
TOTAL REVENUE	<u>224,537</u>	<u>5,109</u>	<u>229,646</u>
EXPENDITURES:			
Salaries and wages	62,839	-	62,839
Employee benefits	43,506	-	43,506
Food	101,181	-	101,181
Supplies and equipment	6,622	-	6,622
Purchased services	2,466	-	2,466
Repairs	1,111	-	1,111
Miscellaneous	2,489	-	2,489
TOTAL EXPENDITURES	<u>220,214</u>	<u>-</u>	<u>220,214</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>4,323</u>	<u>5,109</u>	<u>9,432</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	132	-	132
Indirect costs	(10,000)	-	(10,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(9,868)</u>	<u>-</u>	<u>(9,868)</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(5,545)</u>	<u>5,109</u>	<u>(436)</u>
FUND BALANCE - JULY 1	47,911	186,459	234,370
FUND BALANCE - JUNE 30	<u>\$ 42,366</u>	<u>\$ 191,568</u>	<u>\$ 233,934</u>

NORTH HURON SCHOOLS

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN
FUND BALANCE - DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2019**

	<u>NORTH HURON DEBT FUND</u>	<u>PORT HOPE COMMUNITY SCHOOL DEBT FUND</u>	<u>TOTAL DEBT FUNDS</u>
<u>REVENUE:</u>			
Local sources:			
Taxes	\$ 1,287,860	\$ 232,222	\$ 1,520,082
Interest	5,180	920	6,100
TOTAL REVENUE	1,293,040	233,142	1,526,182
<u>EXPENDITURES:</u>			
Debt service:			
Principal repayment	925,000	215,000	1,140,000
Interest and fiscal charges	192,801	28,900	221,701
TOTAL EXPENDITURES	1,117,801	243,900	1,361,701
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	175,239	(10,758)	164,481
FUND BALANCE - JULY 1	190,583	37,481	228,064
FUND BALANCE - JUNE 30	\$ 365,822	\$ 26,723	\$ 392,545

NORTH HURON SCHOOLS
SCHEDULE OF BONDED DEBT
2014 SCHOOL TECHNOLOGY BONDS
JUNE 30, 2019

Fiscal Years Ending June 30,	Interest Rate	Interest due		Principal 1-May	Total due Annually
		1-Nov	1-May		
2020	2.353%	\$ 5,530	\$ 5,530	\$ 230,000	\$ 241,060
2021	2.500%	<u>3,000</u>	<u>3,000</u>	<u>240,000</u>	<u>246,000</u>
Total		<u>\$ 8,530</u>	<u>\$ 8,530</u>	<u>\$ 470,000</u>	<u>\$ 487,060</u>

Bonds in the amount of \$750,000 were issued for the purpose of technology improvements.

**NORTH HURON SCHOOLS
PORT HOPE COMMUNITY SCHOOL DEBT**

**SCHEDULE OF BONDED DEBT
2015 REFUNDING BONDS
JUNE 30, 2019**

Fiscal Years Ending <u>June 30,</u>	Interest <u>Rate</u>	Interest due		Principal <u>1-May</u>	Total due <u>Annually</u>
		<u>1-Nov</u>	<u>1-May</u>		
2020	2.000%	\$ 12,050	\$ 12,050	\$ 215,000	\$ 239,100
2021	2.000%	9,900	9,900	220,000	239,800
2022	2.000%	7,700	7,700	225,000	240,400
2023	2.000%	5,450	5,450	230,000	240,900
2024	3.000%	3,150	3,150	210,000	216,300
Total		<u>\$ 38,250</u>	<u>\$ 38,250</u>	<u>\$ 1,100,000</u>	<u>\$ 1,176,500</u>

On February 24, 2015, a portion of the 2005 Refunding Bonds were refunded.

NORTH HURON SCHOOLS
SCHEDULE OF BONDED DEBT
2018 SCHOOL BUILDING AND SITE BONDS
JUNE 30, 2019

Fiscal Years Ending June 30,	Interest Rate	Interest due		Principal 1-May	Total due Annually
		1-Nov	1-May		
2020	3.000%	\$ 107,550	\$ 107,550	\$ 715,000	\$ 930,100
2021	3.000%	96,825	96,825	715,000	908,650
2022	3.000%	86,100	86,100	715,000	887,200
2023	3.000%	75,375	75,375	715,000	865,750
2024	3.000%	64,650	64,650	715,000	844,300
2025	3.000%	53,925	53,925	715,000	822,850
2026	3.000%	43,200	43,200	720,000	806,400
2027	3.000%	32,400	32,400	720,000	784,800
2028	3.000%	21,600	21,600	720,000	763,200
2029	3.000%	10,800	10,800	720,000	741,600
Total		\$ 592,425	\$ 592,425	\$ 7,170,000	\$ 8,354,850

Bonds in the amount of \$7,870,000 were issued for the purpose of major renovations to school facilities.

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

To the Board of Education
North Huron Schools
Kinde, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Huron Schools, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise North Huron School's basic financial statements, and have issued our report thereon dated October 1, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Nietzke & Faupel P.C.

NIETZKE & FAUPEL, P.C.
Pigeon, Michigan

October 1, 2019