

TECUMSEH PUBLIC SCHOOLS

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

YEAR ENDED JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Tecumseh Public Schools

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 Tecumseh Public Schools, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Tecumseh Public Schools' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2019 on our consideration of Tecumseh Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Tecumseh Public Schools' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tecumseh Public Schools' internal control over financial reporting and compliance.

Maney Costeiran PC

September 26, 2019

**TECUMSEH PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION & ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2019**

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 funds* statements tell how *basic services* like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others.

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.

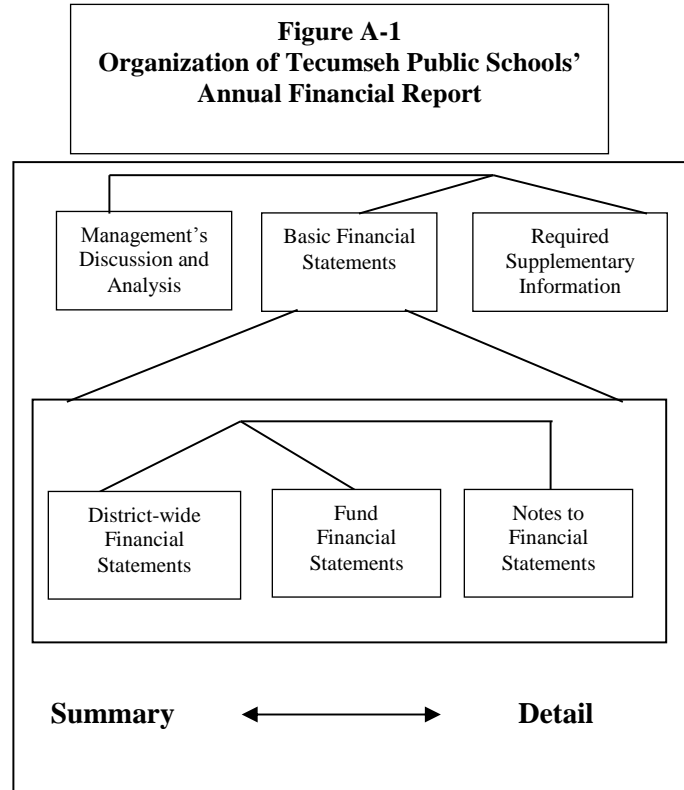


Figure A-2 Major Features of District-wide and Fund Financial Statements			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education 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 revenues, expenditures and changes in fund balances	* Statement of fiduciary net position * Statement of changes in 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, TPS's 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 is 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.

DISTRICT-WIDE FINANCIAL STATEMENTS

All of the District's assets, deferred outflows of resources, deferred inflows of resources, and liabilities are reported in the District-wide financial statements and are on a full accrual basis that is similar to those used by private-sector companies. For example, capital assets and long-term obligations of the District are reported in the statement of net position of the District-wide financial statements. The difference between the District's assets, deferred outflows of resources, deferred inflows of resources and liabilities (net position) are one way to measure the District's financial position. However, you need to consider other non-financial factors such as changes in the District's property tax base and the condition and age of the school buildings and other facilities.

The current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. Most of the District's basic services are included here, such as regular and special education, transportation and administration. These activities are financed through the state foundation grant, property taxes and various federal and state programs.

The District's combined net position at the beginning of the fiscal year was (\$15,428,518) and on June 30, 2019 it is (\$14,577,345) which represents an increase of \$851,173 as recorded in the statement of activities.

FUND FINANCIAL STATEMENTS

The fund financial statements are reported on a modified accrual basis and consist of governmental funds and fiduciary funds. Governmental funds include most of the District's basic services 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 on future District programs.

Fiduciary funds are for assets that belong to others, such as the scholarship fund and the student activities fund where the District is the trustee or fiduciary. The District cannot use these assets to finance its operations but it is responsible to ensure that these funds are used for their intended purposes. Only measurable and currently available funds are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources. Some of these funds are established by State law and by bond covenants while others can be established for the District to control and manage money for a particular purpose such as school lunch and athletics.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position - The District's combined net deficit improved as of June 30, 2019.

	Statement of Net Position	
	June 30, 2019	June 30, 2018
Assets		
Current and other assets	\$ 8,615,622	\$ 9,853,829
Capital assets	45,483,226	46,704,670
Total Assets	<u>54,098,848</u>	<u>56,558,499</u>
Deferred Outflows of Resources	<u>20,196,811</u>	<u>11,013,743</u>
Liabilities		
Current liabilities	6,492,635	7,103,253
Noncurrent liabilities	74,857,539	71,825,744
Total Liabilities	<u>81,350,174</u>	<u>78,928,997</u>
Deferred Inflows of Resources	<u>7,522,830</u>	<u>4,071,763</u>
Net Position		
Net investment in capital assets	22,118,226	19,962,194
Restricted	408,880	174,951
Unrestricted	<u>(37,104,451)</u>	<u>(35,565,663)</u>
Total Net Position	<u>\$ (14,577,345)</u>	<u>\$ (15,428,518)</u>

STATE OF MICHIGAN UNRESTRICTED AID (State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. The Michigan State Aid Act per student foundation allowance which was established under Proposal A has increased from \$4,754 per student in 1995 to \$7,871 per student in 2018-19. The per student State foundation allowance increased by \$140 from 2017-18. This increase followed the previous year increase in foundation allowance paid to the districts from \$7,391 in 2015-16 to \$7,511 in 2016-17.
- b. The District's non-homestead levy for 2018-19 was 18.0000 mills which the voters approved in November of 2014.

Student Enrollment

Student enrollment decreased from 2,949 in 2017-18 to 2,788 in 2018-19. For the 2019-20 school year it is anticipated that enrollment will decrease slightly; as of the end of August, enrollment has decreased approximately 2.7%.

GOVERNMENTAL FUNDS

Results of Operations

For the fiscal years ended June 30, 2019 and 2018, the total fund-level results of operations were:

	Year Ended	
	June 30, 2019	June 30, 2018
Revenues		
Program Revenues		
Charges for services	\$ 1,165,535	\$ 1,387,628
Operating grants and contributions	4,824,554	4,388,542
General Revenues		
Property Taxes	6,947,812	6,720,756
State foundation allowance	19,283,692	19,022,541
Intermediate sources	1,139,424	1,265,675
Other	533,959	775,451
Total Revenues	<u>33,894,976</u>	<u>33,560,593</u>
Functions/Program Expenses		
Instruction	17,483,539	17,521,269
Support Services	10,327,668	8,847,228
Community service	591,088	594,761
Food Service	1,000,607	1,035,927
Athletics	778,393	822,398
Interest and costs on long-term debt	1,144,877	1,395,407
Unallocated depreciation	1,717,631	1,693,647
Total Expenses	<u>33,043,803</u>	<u>31,910,637</u>
Increase in Net Position	<u>\$ 851,173</u>	<u>\$ 1,649,956</u>

The following summarizes the revenues and expenses by comparing fiscal year 2019 to 2018 as shown in the previous results of operations.

- Property tax revenue increased due to taxable values increasing by approximately \$6.9 million.
- State sources increased due to increases in at-risk funding, discretionary payments, and state funds to help fund the employee pension plan.
- Expenses increased from \$31.9 million in 2018 to \$33.0 million, an increase of \$1,133,166. The increase is due to an increase in support services and administrative costs.

The Tecumseh Public Schools voters approved the 18 mill renewal in May 2017. The State of Michigan allows each school district to levy 18 mills on Non-PRE property, formally known as non-homestead property, and the foundation grant is calculated after the 18 mills. The approval of this renewal resulted in over \$2.5 million in revenue for the District in fiscal year 2017-18.

GENERAL FUND AND BUDGET HIGHLIGHTS

Original vs. Final Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. The original 2018-19 budget was approved in June 2018.

The 2018-19 budget was revised three times throughout the fiscal year, with the final revision approved in June 2019. The final budget revision anticipated lower revenues and higher expenses than was expected in June 2018 when the original budget was approved. The decrease in revenues was a result of receiving less state funding than anticipated. The increase in expenses was the result of the additional operations and maintenance expenses incurred during the current year as well as higher than originally expected Superintendent and IT administration costs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2019, the District had invested \$45.48 million in a broad range of capital assets.

	<u>2019</u>	<u>2018</u>
Land	\$ 1,590,511	\$ 1,590,511
Buildings and building improvements	43,317,123	44,595,980
Furniture and equipment	550,002	488,511
Vehicles	<u>25,590</u>	<u>29,668</u>
	<u>\$ 45,483,226</u>	<u>\$ 46,704,670</u>

LONG-TERM DEBT

At the end of the year, the District had approximately \$23,443,948 in bonds and other obligations outstanding versus approximately \$26,803,179 in the previous year. Those debts consisted of the following:

	<u>2019</u>	<u>2018</u>
General Obligation Bonds	\$ 23,365,000	\$ 26,455,000
Installment Loans	-	287,476
Compensated Absences	<u>78,948</u>	<u>60,703</u>
	<u>\$ 23,443,948</u>	<u>\$ 26,803,179</u>

The State limits the amount of general obligation debt that schools can issue up to 15 percent of the assessed value of all taxable property within the District's boundaries. If the District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The District's outstanding qualified general obligation debt of approximately \$23,365,000 is below this statutorily imposed limit. Other obligations including accrued vacation pay and sick leave (compensated absences) are reported as required by GASB. More details related to the District's long-term obligations can be found in Note 5 to the financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

There are several factors that could significantly affect the financial health of the District in the future.

- The Tecumseh Education Association (teachers only) have a negotiated contract starting July of 2017 ending June of 2020. Negotiations for a contract renewal will take place during the 2019-2020 school year. The food service vendor contract was approved in June of 2019 and allows for 5 one year extensions.
- The 2019-20 General Fund budget was approved by the Board at their June meeting and reflects a decrease in student enrollment with a deficit of \$514,180. Expenses will be examined in an effort to offset this budgeted deficit. The budget also reflects an increase in state aid of \$150 per student; increasing the per pupil amount to \$8,021.

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 revenues it receives. If you have any questions about this report or need any additional information, please contact Business Services Office, Tecumseh Public Schools, 212 N. Ottawa Street, Tecumseh, Michigan 49286.

BASIC FINANCIAL STATEMENTS

**TECUMSEH PUBLIC SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2019**

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 3,794,228
Accounts receivable	149,916
Due from other governmental units	4,267,137
Prepays	390,714
Inventories	13,627
Total current assets	8,615,622
Noncurrent assets	
Capital assets not being depreciated	1,590,511
Capital assets, net of accumulated depreciation	43,892,715
Total noncurrent assets	45,483,226
TOTAL ASSETS	54,098,848
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	17,019,723
Deferred outflows of resources related to OPEB	3,177,088
Total deferred outflows of resources	20,196,811
LIABILITIES	
Current liabilities	
Accounts payable	583,605
Accrued payroll	2,345,156
Accrued interest payable	194,708
Unearned revenue	143,653
Current portion of compensated absences	25,513
Current portion of long-term debt	3,200,000
Total current liabilities	6,492,635
Noncurrent liabilities	
Noncurrent portion of compensated absences	53,435
Noncurrent portion of long-term debt	20,165,000
Net OPEB liability	11,625,116
Net pension liability	43,013,988
Total noncurrent liabilities	74,857,539
TOTAL LIABILITIES	81,350,174
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	3,292,367
Deferred inflows of resources related to state aid funding for pensions	1,616,691
Deferred inflows of resources related to OPEB	2,613,772
Total deferred inflows of resources	7,522,830
NET POSITION	
Net investment in capital assets	22,118,226
Restricted for debt service	408,880
Unrestricted	(37,104,451)
TOTAL NET POSITION	\$ (14,577,345)

See notes to financial statements.

**TECUMSEH PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenues and Changes in Net Position Governmental Activities
Governmental activities				
Instruction	\$ 17,483,539	\$ 345,214	\$ 3,848,360	\$ (13,289,965)
Supporting services	10,327,668	5,796	343,253	(9,978,619)
Community service	591,088	386,275	4,430	(200,383)
Food service	1,000,607	357,105	628,511	(14,991)
Athletics	778,393	71,145	-	(707,248)
Interest and costs on long-term debt	1,144,877	-	-	(1,144,877)
Unallocated depreciation	1,717,631	-	-	(1,717,631)
TOTAL	\$ 33,043,803	\$ 1,165,535	\$ 4,824,554	(27,053,714)
General revenues				
Property taxes				6,947,812
State school aid - unrestricted				19,283,692
Intermediate sources				1,139,424
Investment earnings				64,309
Miscellaneous				469,650
TOTAL GENERAL REVENUES				27,904,887
CHANGE IN NET POSITION				851,173
Net position, beginning of year				(15,428,518)
Net position, end of year				\$ (14,577,345)

See notes to financial statements.

**TECUMSEH PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019**

	General	2015 Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,053,077	\$ 602,070	\$ 139,081	\$ 3,794,228
Accounts receivable	148,288	1,518	110	149,916
Due from other governmental units	4,235,632	-	31,505	4,267,137
Due from other funds	-	-	29,138	29,138
Prepays	309,922	-	80,792	390,714
Inventories	-	-	13,627	13,627
TOTAL ASSETS	\$ 7,746,919	\$ 603,588	\$ 294,253	\$ 8,644,760
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 515,877	\$ -	\$ 67,728	\$ 583,605
Accrued payroll	2,345,156	-	-	2,345,156
Due to other funds	28,726	-	412	29,138
Unearned revenue	123,377	-	20,276	143,653
TOTAL LIABILITIES	3,013,136	-	88,416	3,101,552
FUND BALANCES				
Nonspendable				
Inventories	-	-	13,627	13,627
Prepays	309,922	-	80,792	390,714
Restricted				
Debt service	-	603,588	-	603,588
Food and nutrition	-	-	72,678	72,678
Community service	-	-	1,633	1,633
Assigned				
Capital projects	-	-	37,107	37,107
Subsequent year's expenditures	514,180	-	-	514,180
Unassigned	3,909,681	-	-	3,909,681
TOTAL FUND BALANCES	4,733,783	603,588	205,837	5,543,208
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,746,919	\$ 603,588	\$ 294,253	\$ 8,644,760

See notes to financial statements.

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

Total fund balances - governmental funds \$ 5,543,208

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

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

The cost of capital assets is	\$ 77,192,657	
Accumulated depreciation is	<u>(31,709,431)</u>	
Capital assets, net		45,483,226

Governmental funds report actual pension expenditures for the fiscal year, whereas the governmental activities will recognize the net pension and OPEB liability as of the measurement date. Pension and OPEB contributions subsequent to the measurement date will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, state aid related to pensions, differences between projected and actual pension and OPEB plan investment earnings, and changes in proportionate share of the District's contributions will be deferred over time in the government-wide financial statements. These amounts consist of:

Deferred outflows of resources related to OPEB	\$ 3,177,088	
Deferred inflows of resources related to OPEB	(2,613,772)	
Deferred inflows of resources related to state aid funding for pensions	(1,616,691)	
Deferred outflows of resources related to pensions	17,019,723	
Deferred inflows of resources related to pensions	<u>(3,292,367)</u>	
		12,673,981

Long-term liabilities 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 and loans payable	\$ (23,365,000)	
Accrued interest payable on long-term debt	(194,708)	
Compensated absences	(78,948)	
Net pension liability	(43,013,988)	
Net OPEB liability	<u>(11,625,116)</u>	
		<u>(78,277,760)</u>
Net position of governmental activities		<u><u>\$ (14,577,345)</u></u>

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

	General	2015 Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Local sources	\$ 3,168,240	\$ 4,371,222	\$ 549,506	\$ 8,088,968
State sources	23,358,680	217,584	58,531	23,634,795
Federal sources	343,253	-	574,410	917,663
Intermediate school districts	1,139,424	-	-	1,139,424
TOTAL REVENUES	28,009,597	4,588,806	1,182,447	33,780,850
EXPENDITURES				
Current				
Instruction	17,006,065	-	-	17,006,065
Supporting services	10,742,017	-	-	10,742,017
Food service	-	-	1,000,607	1,000,607
Community service	338,193	-	244,368	582,561
Capital outlay	-	-	557,022	557,022
Debt service				
Principal retirement	120,000	3,090,000	167,476	3,377,476
Interest, fiscal, and other charges	41,909	1,283,902	-	1,325,811
TOTAL EXPENDITURES	28,248,184	4,373,902	1,969,473	34,591,559
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(238,587)	214,904	(787,026)	(810,709)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	765,673	765,673
Transfers out	(728,566)	-	(37,107)	(765,673)
TOTAL OTHER FINANCING SOURCES (USES)	(728,566)	-	728,566	-
NET CHANGE IN FUND BALANCES	(967,153)	214,904	(58,460)	(810,709)
Fund balances, beginning of year	5,700,936	388,684	264,297	6,353,917
Fund balances, end of year	<u>\$ 4,733,783</u>	<u>\$ 603,588</u>	<u>\$ 205,837</u>	<u>\$ 5,543,208</u>

See notes to financial statements.

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

Net change in fund balances - total governmental funds \$ (810,709)

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 496,187	
Depreciation expense	<u>(1,717,631)</u>	
Excess of depreciation expense over capital outlay		(1,221,444)

Repayments of long-term debt are reported as expenditures in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. In the current year, these amounts consisted of:

Debt principal retirements	3,377,476
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	\$ 19,025	
(Increase) in compensated absences	(18,245)	
(Increase) in net pension liability	(6,945,201)	
Change in deferred outflows of resources related to pensions	6,869,640	
Change in deferred inflows of resources related to pensions	(1,368,718)	
Change in deferred inflows of resources related to state aid funding for pensions	114,126	
Decrease in net OPEB liability	718,270	
Change in deferred outflows of resources related to OPEB	2,313,428	
Change in deferred inflows of resources related to OPEB	<u>(2,196,475)</u>	
		<u>(494,150)</u>

Change in net position of governmental activities \$ 851,173

TECUMSEH PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2019

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 109,352	\$ 398,451
Accounts receivable	-	3,929
	\$ 109,352	\$ 402,380
TOTAL ASSETS		
LIABILITIES		
Due to student groups	\$ -	\$ 402,380
	-	\$ 402,380
NET POSITION		
Held in trust for private purposes	\$ 109,352	

See notes to financial statements.

**TECUMSEH PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2019**

	Private Purpose Trust Fund
ADDITIONS	
Interest	\$ 775
DEDUCTIONS	
CHANGE IN NET POSITION	775
Net position, beginning of year	108,577
Net position, end of year	\$ 109,352

See notes to financial statements.

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Government-wide Financial Statements

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

Reporting Entity

The Tecumseh Public Schools (the "District") is governed by the Tecumseh Public 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 sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

Basis of Presentation - Government-wide Financial Statements

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

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

Basis of Presentation - Fund Financial Statements

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

The District reports the following major governmental funds:

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

2015 debt service fund - The 2015 debt service fund was established to account for resources for payment of debt related to bonds.

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other Nonmajor Funds

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

The *building and site fund* accounts for the receipt of property taxes designated for capital projects expenditures of funds. The fund has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

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

The *private purpose trust fund* is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where interest payments may be spent for student scholarships. These funds are not included in the District's 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 basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

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

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

Measurement Focus and Basis of Accounting

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

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

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

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

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

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

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

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

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

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

The private-purpose trust fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgetary Information

Budgetary basis of accounting:

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

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

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to year end June 30, 2019. The District does not consider these amendments to be significant.

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Cash and Cash Equivalents

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

Inventories and Prepaid Items

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

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

Capital Assets

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

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

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings and building improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles and buses	5 - 10 years

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Defined Benefit Plans

For purposes of measuring the net pension and other postemployment benefit liability, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pension and other postemployment benefits expense, information about the fiduciary net position of the Michigan Public Employees Retirement System (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.

Deferred Outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. They are the pension and other postemployment benefits related items reported in the government-wide statement of net position. A deferred outflow is recognized for pension and other postemployment benefit related items. These amounts are expensed in the plan year in which they apply.

Deferred Inflows

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

Net Position Flow Assumption

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

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Balance Flow Assumptions

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

Fund Balance Policies

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

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

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

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues and Expenditures/Expenses

Program Revenues

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

Property Taxes

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

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

Fund	Mills
General Fund	
Non-Principal Residence Exemption (PRE)	17.8309
Commercial Personal Property	6.000
Debt Service Fund	
PRE, Non-PRE, Commercial Personal Property	7.200
Community Service Fund	
PRE and Non-PRE	0.250

Compensated Absences

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

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues and Expenditures/Expenses (continued)

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

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

NOTE 2 - DEPOSITS

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

	Governmental Activities	Fiduciary Fund	Total
Cash and cash equivalents	\$ 3,787,130	\$ 507,803	\$ 4,294,933
Imprest cash	7,098	-	7,098
	<u>\$ 3,794,228</u>	<u>\$ 507,803</u>	<u>\$ 4,302,031</u>

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.

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS (continued)

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, \$1,472,220 of the District's bank balance of \$4,686,581 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. The carrying value on the books for deposits at the end of the year was \$4,294,933. The District had \$7,098 in imprest cash at June 30, 2019.

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.

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

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

	Government- wide
State Aid	<u>\$ 4,161,413</u>
Federal Revenue	<u>105,724</u>
	<u><u>\$ 4,267,137</u></u>

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

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets not being depreciated				
Land	\$ 1,590,511	\$ -	\$ -	\$ 1,590,511
Capital assets being depreciated				
Buildings and building improvements	73,237,423	350,306	-	73,587,729
Furniture and equipment	1,812,142	145,881	-	1,958,023
Vehicles	56,394	-	-	56,394
Total capital assets being depreciated	75,105,959	496,187	-	75,602,146
Less accumulated depreciation for				
Buildings and building improvements	(28,641,443)	(1,629,163)	-	(30,270,606)
Furniture and equipment	(1,323,631)	(84,390)	-	(1,408,021)
Vehicles	(26,726)	(4,078)	-	(30,804)
Total accumulated depreciation	(29,991,800)	(1,717,631)	-	(31,709,431)
Net capital assets being depreciated	45,114,159	(1,221,444)	-	43,892,715
Capital assets, net	\$ 46,704,670	\$ (1,221,444)	\$ -	\$ 45,483,226

Depreciation for the fiscal year ended June 30, 2019 amounted to \$1,717,631 and was not allocated to government functions. It appears on the statement of activities as "unallocated."

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM OBLIGATIONS

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

	General Obligation Bonds	Notes from Direct Borrowing and Direct Placements	Compensated Absences	Total
Balance, July 1, 2018	\$ 26,455,000	\$ 287,476	\$ 60,703	\$ 26,803,179
Additions	-	-	29,855	29,855
Deletions	3,090,000	287,476	11,610	3,389,086
Balance, June 30, 2019	23,365,000	-	78,948	23,443,948
Due within one year	3,200,000	-	25,513	3,225,513
Due in more than one year	\$ 20,165,000	\$ -	\$ 53,435	\$ 20,218,435

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

General Obligations Bonds:

\$25,110,000 2015 Series A Refunding Bonds, dated February 5, 2015, due in annual installments ranging from \$1,535,000 to \$3,355,000 through May 1, 2030, with interest of 5.00%, payable semi-annually.

\$ 23,365,000

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, \$16,195,000 of bonds outstanding are considered defeased.

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM OBLIGATIONS (continued)

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

Year Ending June 30,	General Obligation Bonds		Compensated	Total
	Principal	Interest	Absences	
2020	\$ 3,200,000	\$ 1,168,250	\$ -	\$ 4,368,250
2021	3,355,000	1,008,250	-	4,363,250
2022	2,155,000	840,500	-	2,995,500
2023	2,085,000	732,750	-	2,817,750
2024	2,015,000	628,500	-	2,643,500
2025-2029	9,020,000	1,701,250	-	10,721,250
2030	1,535,000	76,750	-	1,611,750
Compensated absences	-	-	78,948	78,948
	<u>\$ 23,365,000</u>	<u>\$ 6,156,250</u>	<u>\$ 78,948</u>	<u>\$ 29,600,198</u>

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

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

Receivable Fund		Payable Fund	
Nonmajor governmental fund	\$ 29,138	Nonmajor governmental fund	\$ 412
	<u>\$ 29,138</u>	General fund	28,726
			<u>\$ 29,138</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.

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Plan Description

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

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

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

Benefits Provided - Overall

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

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

Benefits Provided - Pension

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

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Benefits Provided - Pension (continued)

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

Pension Reform 2010

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

Pension Reform 2012

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

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

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

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

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

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

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension Reform 2012 (continued)

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

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

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

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

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

Pension Reform of 2017

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

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Benefits Provided - Other Postemployment Benefit (OPEB)

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

Retiree Healthcare Reform of 2012

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

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

Regular Retirement (no reduction factor for age)

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

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Regular Retirement (no reduction factor for age) (continued)

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

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

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

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

The District's pension contributions for the year ended June 30, 2019 were equal to the required contribution total. Pension contributions were approximately \$4,855,000, with \$4,678,000 specifically for the Defined Benefit Plan.

The District's OPEB contributions for the year ended June 30, 2019 were equal to the required contribution total. OPEB benefits were approximately \$1,561,000, with \$1,461,000 specifically for the Defined Benefit Plan.

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

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Pension Liabilities

At June 30, 2019, the District reported a liability of \$43,013,998 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2017 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2018 and 2017, the District's proportion was 0.14309% and 0.13919%.

<u>MPERS (Plan) Non-University Employers</u>	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Total Pension Liability	\$ 79,863,697,444	\$ 72,407,218,688
Plan Fiduciary Net Position	(49,801,889,205)	(46,492,967,573)
Net Pension Liability	30,061,808,239	25,914,251,115
Proportionate Share	0.14309%	0.13919%
Net Pension Liability for the District	\$ 43,013,998	\$ 36,068,787

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 \$6,415,550.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 2,249,246	\$ 38,729
Differences between expected and actual experience	199,593	312,575
Changes of assumptions	9,962,004	-
Net differences between projected and actual plan investment earnings	-	2,941,063
Reporting unit's contributions subsequent to the measurement date	4,608,880	-
	<u>\$ 17,019,723</u>	<u>\$ 3,292,367</u>

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

\$4,608,880, 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>Year Ending September 30,</u>	<u>Amount</u>
2019	\$ 3,787,799
2020	2,819,118
2021	1,822,436
2022	689,123

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 \$11,625,116 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 0.14624716% and 0.13938712%.

<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	5,065,474,936
Net Other Postemployment Benefit Liability	7,948,951,791	8,855,471,055
Proportionate Share	0.14624716%	0.13938712%
Net Other Postemployment Benefit Liability for the District	\$ 11,625,116	\$ 12,343,386

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

For the year ended June 30, 2019, the District recognized OPEB expense of \$678,971.

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>
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 516,255	\$ 3,258
Changes of assumptions	1,231,106	-
Differences between expected and actual experience	-	2,163,733
Net differences between projected and actual plan investment earnings	-	446,781
Reporting unit's contributions subsequent to the measurement date	<u>1,429,727</u>	<u>-</u>
	<u>\$ 3,177,088</u>	<u>\$ 2,613,772</u>

\$1,429,727, 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>Year Ending September 30,</u>	<u>Amount</u>
2019	\$ (229,156)
2020	(229,156)
2021	(229,156)
2022	(138,025)
2023	(40,918)

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions

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

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

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

Inflation - 3.0%.

Mortality assumptions:

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

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

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

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

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 12.

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

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

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

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

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

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

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

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

Pension discount rate - A single discount rate of 7.05% was used to measure the total pension liability (7.00% for the Pension Plus Plan and 6.00% for the Pension Plus 2 Plan). This discount rate was based on the long-term rate of return on pension plan investments of 7.05% (7.00% for the Pension Plus Plan and 6.00% for the Pension Plus 2 Plan). The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

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

Sensitivity of the net pension liability to changes in the discount rate - The following presents the Reporting Unit's proportionate share of the net pension liability calculated using a single discount rate of 7.05% (7.00% for the Pension Plus Plan and 6.00% for the Pension Plus 2 Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Pension		
	1% Decrease	Discount Rate	1% Increase
District's proportionate share of the net pension liability	\$ 56,474,044	\$ 43,013,988	\$ 31,830,870

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

	Other Postemployment Benefit		
	1% Decrease	Discount Rate	1% Increase
District's proportionate share of the net other postemployment benefit liability	\$ 13,955,716	\$ 11,625,116	\$ 9,664,797

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - 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% Decrease	Healthcare Cost Trend	1% Increase
District's proportionate share of the net other postemployment benefit liability	\$ 9,561,530	\$ 11,625,116	\$ 13,992,471

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 District is current on all required pension and other postemployment benefit plan payments. 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 8 - RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for boiler and machinery, property, fleet, liability, in-land marine, data breach, terrorism and school violent acts, employee dishonestly, crime, and error and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

The District also participates in a pool, the SEG Self-Insurer Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - TRANSFERS

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfer to nonmajor governmental funds from		
General Fund	\$	728,566
Nonmajor governmental funds		37,107
	\$	765,673

The transfers from the General Fund and nonmajor governmental funds to the nonmajor governmental funds was to supplement operational expenses incurred during the year, and to fund various capital projects during the year.

NOTE 10 - TAX ABATEMENTS

Municipalities within the District’s boundaries such as the City of Tecumseh have entered into property tax abatement agreements with local business under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended. The IFT on a new plant and non-industrial property, such as some high-tech personal property, is computed at 50% of the property tax bill for new property. For rehabilitation properties, the taxable values can be frozen.

For the year ended June 30, 2019, the districts property tax revenue for general operations, debt service, and community service were reduced under this program by the following:

City of Tecumseh	\$	27,823
Raisin Township		56,481
	\$	84,304

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

There are no significant abatements made by the District.

NOTE 11 - UPCOMING ACCOUNTING PRONOUNCEMENTS

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

**TECUMSEH PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 - UPCOMING ACCOUNTING PRONOUNCEMENTS (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

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

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 3,059,084	\$ 3,111,373	\$ 3,168,240	\$ 56,867
State sources	23,968,361	23,280,861	23,358,680	77,819
Federal sources	331,503	349,652	343,253	(6,399)
Intermediate school districts	1,200,000	1,139,400	1,139,424	24
TOTAL REVENUES	28,558,948	27,881,286	28,009,597	128,311
EXPENDITURES				
Current				
Instruction				
Basic programs	14,084,885	13,917,633	13,853,771	63,862
Added needs	3,339,870	3,228,321	3,152,294	76,027
Total instruction	17,424,755	17,145,954	17,006,065	139,889
Supporting services				
Student services	856,195	867,557	858,301	9,256
Instructional staff	1,217,804	1,142,181	1,093,386	48,795
General administration	659,341	717,261	691,108	26,153
School administration	1,613,052	1,630,540	1,585,619	44,921
Business services	306,475	287,975	282,205	5,770
Operations and maintenance services	2,618,556	3,196,213	3,109,643	86,570
Transportation	1,498,296	1,501,169	1,495,998	5,171
Central services	705,620	885,230	847,364	37,866
Athletics	813,533	798,532	778,393	20,139
Total supporting services	10,288,872	11,026,658	10,742,017	284,641
Community services	373,840	357,844	338,193	19,651
Debt service				
Principal retirement	120,000	120,000	120,000	-
Interest, fiscal, and other charges	100,508	62,183	41,909	20,274
Total debt service	220,508	182,183	161,909	20,274
TOTAL EXPENDITURES	28,307,975	28,712,639	28,248,184	464,455
EXCESS OF REVENUES (UNDER) EXPENDITURES	250,973	(831,353)	(238,587)	592,766
OTHER FINANCING (USES)				
Transfers out	(718,600)	(730,006)	(728,566)	1,440
TOTAL OTHER FINANCING (USES)	(718,600)	(730,006)	(728,566)	1,440
NET CHANGE IN FUND BALANCE	(467,627)	(1,561,359)	(967,153)	594,206
Fund balance, beginning of year	5,700,936	5,700,936	5,700,936	-
Fund balance, end of year	<u>\$ 5,233,309</u>	<u>\$ 4,139,577</u>	<u>\$ 4,733,783</u>	<u>\$ 594,206</u>

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

	2018	2017	2016	2015	2014
District's proportion of net pension liability (%)	0.14309%	0.13919%	0.13259%	0.12661%	0.12354%
District's proportionate share of net pension liability	\$ 43,013,998	\$ 36,068,787	\$ 33,079,786	\$ 30,924,561	\$ 27,212,093
District's covered employee payroll	\$ 12,458,162	\$ 11,864,745	\$ 11,429,731	\$ 11,642,219	\$ 10,743,210
District's proportionate share of net pension liability as a percentage of its covered employee payroll	345.27%	304.00%	289.42%	265.62%	253.30%
Plan fiduciary net position as a percentage of total pension liability	62.36%	64.21%	63.27%	63.17%	66.20%

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

**TECUMSEH PUBLIC 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	\$ 3,896,240	\$ 3,942,163	\$ 3,638,387	\$ 2,442,474	\$ 2,276,127
Contributions in relation to statutorily required contributions	<u>3,896,240</u>	<u>3,942,163</u>	<u>3,638,387</u>	<u>2,442,474</u>	<u>2,276,127</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 12,556,204	\$ 12,398,768	\$ 12,195,788	\$ 10,900,531	\$ 10,362,928
Contributions as a percentage of covered employee payroll	31.03%	31.79%	29.83%	22.41%	21.96%

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

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

	<u>2018</u>	<u>2017</u>
District's proportion of net OPEB liability (%)	0.14625%	13.93900%
District's proportionate share of net OPEB liability	\$ 11,625,116	\$ 12,343,386
District's covered employee payroll	\$ 12,458,162	\$ 11,864,745
District's proportionate share of net OPEB liability as a percentage of its covered employee payroll	93.31%	104.03%
Plan fiduciary net position as a percentage of total OPEB liability	42.95%	36.39%

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

**TECUMSEH PUBLIC 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	\$ 949,285	\$ 872,645
Contributions in relation to statutorily required contributions	<u>949,285</u>	<u>872,645</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 12,556,204	\$ 12,398,768
Contributions as a percentage of covered employee payroll	7.56%	7.04%

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

**TECUMSEH PUBLIC SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2019**

Pension Information

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

Changes of assumptions – the assumption changes for 2018 were:

Wage inflation rate decreased to 2.75% from 3.50%.

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

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

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

OPEB Information

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

Changes of assumptions – the assumption changes for 2018 were:

Wage inflation rate decreased to 2.75% from 3.50%.

Discount rate decreased to 7.15% from 7.50%.

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

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

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

ADDITIONAL SUPPLEMENTARY INFORMATION

**TECUMSEH PUBLIC SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2019**

	Food Service	Community Service	Building and Site Fund	Total
ASSETS				
Cash and cash equivalents	\$ 92,069	\$ 9,905	\$ 37,107	\$ 139,081
Accounts receivable	-	110	-	110
Due from other governmental units	30,699	806	-	31,505
Due from other funds	29,138	-	-	29,138
Prepays	80,792	-	-	80,792
Inventories	13,627	-	-	13,627
TOTAL ASSETS	\$ 246,325	\$ 10,821	\$ 37,107	\$ 294,253
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 58,952	\$ 8,776	\$ -	\$ 67,728
Unearned revenue	20,276	-	-	20,276
Due to other funds	-	412	-	412
TOTAL LIABILITIES	79,228	9,188	-	88,416
FUND BALANCES				
Nonspendable				
Prepays	80,792	-	-	80,792
Inventories	13,627	-	-	13,627
Restricted				
Food and nutrition	72,678	-	-	72,678
Community service	-	1,633	-	1,633
Assigned				
Capital projects	-	-	37,107	37,107
TOTAL FUND BALANCES	167,097	1,633	37,107	205,837
TOTAL LIABILITIES AND FUND BALANCES	\$ 246,325	\$ 10,821	\$ 37,107	\$ 294,253

**TECUMSEH PUBLIC SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUND TYPES
 YEAR ENDED JUNE 30, 2019**

	Food Service	Community Service	Building and Site Fund	Total
REVENUES				
Local sources	\$ 357,105	\$ 191,933	\$ 468	\$ 549,506
State sources	54,101	4,430	-	58,531
Federal sources	574,410	-	-	574,410
TOTAL REVENUES	985,616	196,363	468	1,182,447
EXPENDITURES				
Current				
Food service	1,000,607	-	-	1,000,607
Community service	-	244,368	-	244,368
Debt service				
Principal retirement	-	-	167,476	167,476
Capital outlay	-	-	557,022	557,022
TOTAL EXPENDITURES	1,000,607	244,368	724,498	1,969,473
EXCESS OF REVENUES (UNDER) EXPENDITURES	(14,991)	(48,005)	(724,030)	(787,026)
OTHER FINANCING SOURCES (USES)				
Transfers in	2,430	40,000	723,243	765,673
Transfers out	-	37,107	-	37,107
TOTAL OTHER FINANCING SOURCES (USES)	2,430	2,893	723,243	728,566
NET CHANGE IN FUND BALANCES	(12,561)	(45,112)	(787)	(58,460)
Fund balances, beginning of year	179,658	46,745	37,894	264,297
Fund balances, end of year	<u>\$ 167,097</u>	<u>\$ 1,633</u>	<u>\$ 37,107</u>	<u>\$ 205,837</u>

**TECUMSEH PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

Federal Grantor / Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount	(Memo Only) Prior Years' Expenditures	Balance July 1, 2018 Accrued or (Deferred) Revenue	Cash Receipts In-Kind Payments	Expenditures	Balance June 30, 2019 Accrued or (Deferred) Revenue
U.S. DEPARTMENT OF AGRICULTURE								
Passed through Michigan Department of Education								
Child Nutrition Cluster								
School Breakfast Program	10.553							
2018-19 Cash assistance		191970	\$ 136,653	\$ -	\$ -	\$ 129,995	\$ 136,653	\$ 6,658
2017-18 Cash assistance		181970	152,466	144,459	5,661	13,667	8,006	-
Total CFDA #10.553			289,119	144,459	5,661	143,662	144,659	6,658
National School Lunch Program	10.555							
2018-19 Cash assistance		191960	274,622	-	-	263,648	274,622	10,974
2017-18 Cash assistance		181960	40,639	29,439	9,645	40,639	30,994	-
2017-18 Noncash assistance - bonus		N/A	4,691	-	-	4,691	4,691	-
2018-19 Noncash assistance - bonus		N/A	2,488	-	-	2,488	2,488	-
2018-19 Noncash assistance - entitlement		N/A	56,675	-	-	56,675	56,675	-
Total CFDA #10.555			379,115	29,439	9,645	368,141	369,470	10,974
Summer Food Service Program	10.559							
2018-19 Cash assistance		190900	4,346	-	-	-	4,346	4,346
2018-19 Cash assistance		190900	450	-	-	-	450	450
2017-18 Cash assistance		180900	38,137	6,520	6,520	38,137	31,617	-
2017-18 Cash assistance		181900	3,955	675	675	3,955	3,280	-
Total CFDA #10.559			46,888	7,195	7,195	42,092	39,693	4,796
Total Child Nutrition Cluster			715,122	181,093	22,501	553,895	553,822	22,428
Child and Adult Care Food Program	10.558							
2018-19 Cash assistance		191920	18,542	-	-	17,502	18,542	1,040
2017-18 Cash assistance		181920	27,075	25,029	1,347	3,393	2,046	-
Total CFDA #10.558			45,617	25,029	1,347	20,895	20,588	1,040
TOTAL U.S. DEPARTMENT OF AGRICULTURE			760,739	206,122	23,848	574,790	574,410	23,468

The accompanying notes are an integral part of this schedule.

**TECUMSEH PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

Federal Grantor / Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount	(Memo Only) Prior Years' Expenditures	Balance July 1, 2018 Accrued or (Unearned) Revenue	Cash Receipts In-Kind Payments	Expenditures	Balance June 30, 2019 Accrued or (Unearned) Revenue
U.S. DEPARTMENT OF EDUCATION								
Passed through Michigan Department of Education								
E.S.E.A. Title I								
2018-19 Regular - Part A	84.010	1915301819	\$ 236,791	\$ -	\$ -	\$ 167,534	\$ 218,149	\$ 50,615
2017-18 Regular - Part A		1815301718	248,140	231,390	98,707	113,631	14,924	-
Total CFDA #84.010			<u>484,931</u>	<u>231,390</u>	<u>98,707</u>	<u>281,165</u>	<u>233,073</u>	<u>50,615</u>
Title IV	84.424	1907501819	16,757	-	-	13,547	15,923	2,376
Improving Teacher Quality								
2018-19	84.367	1905201819	103,191	-	-	58,657	87,922	29,265
2017-18		1805201718	84,036	73,730	24,232	24,232	-	-
Total CFDA #84.367			<u>187,227</u>	<u>73,730</u>	<u>24,232</u>	<u>82,889</u>	<u>87,922</u>	<u>29,265</u>
Passed through Michigan Department of Education and Lenawee Intermediate School District								
Homeless								
2018-19	84.027	1923201819	50	-	-	50	50	-
TOTAL U.S. DEPARTMENT OF EDUCATION								
			<u>688,965</u>	<u>305,120</u>	<u>122,939</u>	<u>377,651</u>	<u>336,968</u>	<u>82,256</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES								
Passed through Michigan Department of Community Health and Lenawee Intermediate School District								
Medicaid Administrative Outreach	93.778	N/A	6,285	-	-	6,285	6,285	-
TOTAL FEDERAL AWARDS								
			<u>\$ 1,455,989</u>	<u>\$ 511,242</u>	<u>\$ 146,787</u>	<u>\$ 958,726</u>	<u>\$ 917,663</u>	<u>\$ 105,724</u>

The accompanying notes are an integral part of this schedule.

TECUMSEH PUBLIC SCHOOLS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 - BASIS OF PRESENTATION

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 - RECONCILIATION WITH AUDITED FINANCIAL STATEMENTS

Federal expenditures are reported as revenue in the following funds in the financial statements June 30, 2019:

General Fund	\$ 343,253
Other Non-major Governmental Funds	<u>574,410</u>
	<u><u>\$ 917,663</u></u>

NOTE 4 - SUBRECIPIENTS

There were no funds that were provided to subrecipients by the District.

**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
Tecumseh Public Schools

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tecumseh Public Schools as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Tecumseh Public Schools' basic financial statements and have issued our report thereon dated September 26, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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.

Maney Costeiran PC

September 26, 2019

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

To the Board of Education
Tecumseh Public Schools

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

Purpose of this Report

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

Manes Costeiran PC

September 26, 2019

**TECUMSEH PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

➤ Material weakness(es) identified? _____ Yes X No

➤ Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

➤ Material weakness(es) identified: _____ Yes X No

➤ Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None reported

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Question Costs

None

**TECUMSEH PUBLIC SCHOOLS
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

There were no audit findings required to be reported on this schedule for the previous year.

September 26, 2019

To the Board of Education
Tecumseh Public Schools

We have audited the financial statements of Tecumseh Public Schools for the year ended June 30, 2019, and have issued our report thereon dated September 26, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter dated July 16th, 2019.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Estimates have been used to calculate the net pension liability and the net other postemployment benefit liability:

We evaluated the key factors and assumptions used to develop the balances of the net pension and net other postemployment benefit liabilities in determining that they are reasonable in relation to the financial statements taken as a whole.

Management’s estimate in calculating the liability for employee compensated absences:

We evaluated the key factors and assumptions used to develop the balance of employee compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management’s determination of the estimated life span of the capital assets:

We evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole. In addition, certain amounts included in capital assets have been estimated based on an outside appraisal company.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Misstatements were not detected as a result of audit procedures.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 26, 2019.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

We were engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this other supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

A separate management letter was not issued.

This information is intended solely for the use of the Board of Education and management of Tecumseh Public Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maney Costeiran PC