

TRI COUNTY AREA SCHOOLS

HOWARD CITY, MICHIGAN

JUNE 30, 2023

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Tri County Area Schools
Howard City, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tri County Area Schools, Howard City, Michigan as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 Tri County Area Schools, as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Tri County Area Schools and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Tri County Area Schools' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an

audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Tri County Area Schools' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Tri County Area Schools' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information (as identified in the table of contents) on pages 4-12 and 53-58 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Tri County Area Schools' basic financial statements. The accompanying Combining Fund Financial Statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including

comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Fund Financial Statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2023, on our consideration of Tri County Area 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 Tri County Area 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 Tri County Area Schools' internal control over financial reporting and compliance.

UHY LLP

Cadillac, Michigan
October 13, 2023

TRI COUNTY AREA SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2023

This section of Tri County Area Schools' ("the District") annual report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2023. Please read it in conjunction with the District's financial statements, which immediately follow this section.

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

Financial Highlights Section

Government-Wide

- The liabilities of the District exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$10,090,808 creating a deficit net position amount.
- The government's total net deficit decreased by \$2,330,676.

Fund Level

- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$13,308,973, a decrease of \$12,362,141 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,792,984.

Overview of the Financial Statements

A. Government-Wide Financial Statements

The government-wide statements provide short-term and long-term financial information about the District's overall financial status. The district-wide financial statements are compiled using full accrual basis of accounting and more closely represent financial statements presented by business and industry. The Statement of Net Position includes all of the District's assets and liabilities. All of the year's revenue and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

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

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

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

In the government-wide financial statements, the District's activities are all shown in one category titled "Governmental Activities". These activities, including instruction, supporting services, community services, student activities, food service, and other transactions including interest on long-term debt and depreciation, are primarily financed with state and federal aids and property taxes.

TRI COUNTY AREA SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2023

B. Fund Financial Statements

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

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

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

The District maintains the following kinds of funds:

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

Proprietary Funds – The District operates a proprietary fund that is composed of an internal service fund. This fund accounts for services provided to the District's other funds. The District's self-funded compensated absences are accounted for in this fund.

Notes to Financial Statements

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

Other Information

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

C. Summary of Net Position

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

TRI COUNTY AREA SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2023

	2023	As Restated 2022
Assets and Deferred Outflows of Resources		
Assets		
Current Assets	\$ 19,756,789	\$ 30,863,375
Non Current Assets		
Net of Accumulated Depreciation	46,763,182	33,655,728
Total Assets	66,519,971	64,519,103
Deferred Outflows of Resources		
Deferred Outflows of Resources Related to Pensions	12,420,148	5,728,603
Deferred Outflows of Resources Related to OPEB	2,923,097	2,175,083
Total Deferred Outflows of Resources	15,343,245	7,903,686
Total Assets and Deferred Outflows of Resources	\$ 81,863,216	\$ 72,422,789
Liabilities, Deferred Inflows of Resources, and Net Position		
Liabilities		
Current Liabilities	\$ 7,270,158	\$ 6,396,900
Long-Term Liabilities	77,224,223	62,569,267
Total Liabilities	84,494,381	68,966,167
Deferred Inflows of Resources		
Deferred Inflows of Resources Related to Pensions	2,971,093	9,884,716
Deferred Inflows of Resources Related to OPEB	4,488,550	5,993,390
Total Deferred Inflows of Resources	7,459,643	15,878,106
Net Position		
Net Investment in Capital Assets	17,762,713	15,788,952
Restricted for Specific Purposes	848,970	632,869
Unrestricted - (Deficit)	(28,702,491)	(28,843,305)
Total Net Position - (Deficit)	(10,090,808)	(12,421,484)
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 81,863,216	\$ 72,422,789

D. Analysis of Financial Position

During the fiscal year ended June 30, 2023, the District's net position increased by \$2,330,676. A few of the more significant factors affecting net position during the year are discussed below:

TRI COUNTY AREA SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2023

1. Depreciation Expense

The school district is required to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net position.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2023, \$910,257 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2023, \$14,057,836 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation and cost of disposed assets, is an increase to capital assets in the amount of \$13,107,454 for the fiscal year ended June 30, 2023. An increase to net capital assets is an increase in net position.

3. Pension and Other Postemployment Benefit Expense

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

4. Payment of Principal on Long-Term Debt

During the year ending June 30, 2023, the District reduced the principal on its long-term liabilities by \$1,052,000. The payment of principal results in an increase to net position.

E. Change in Net Position

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

	<u>2023</u>	<u>2022</u>
Revenue		
Program Revenue:		
Charges for Services	\$ 171,139	\$ 163,714
Operating Grants	9,701,322	9,089,514
Capital Grants	84,667	0

TRI COUNTY AREA SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2023

	2023	2022
General Revenue:		
Property Taxes - Levied for General Purposes	2,513,343	2,374,263
Property Taxes - Levied for Debt Service	2,169,581	2,011,399
Investment Earnings	604,457	(55,202)
State Sources	13,227,423	12,625,560
Other	138,321	500,716
	28,610,253	26,709,964
Function/Program Expense		
Instruction	13,998,934	12,206,572
Supporting Services	8,534,617	7,370,848
Food Service Activities	1,280,389	976,995
Community Services	199,872	196,589
Facilities Acquisition, Construction and Improvements	149,019	0
Interest on Long-Term Debt	1,206,489	1,246,570
Other Transactions	0	34,084
Unallocated Depreciation	910,257	910,458
	26,279,577	22,942,116
Change in Net Position	\$ 2,330,676	\$ 3,767,848

The effects of the prior period restatement were considered minimal and not included in the table above.

F. Financial Analysis of the District's Funds

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

	2023	As Restated 2022	Increase (Decrease)
Major Fund			
General Fund	\$ 3,696,218	\$ 3,535,832	\$ 160,386
2019 Construction Fund	6,282,620	19,373,035	(13,090,415)
Nonmajor Funds			
Food Service Fund	850,460	1,280,695	(430,235)
Child Care Fund	129,934	85,493	44,441
Student/School Activity Fund	152,314	152,044	270
2019 Debt Service Fund	1,058,180	845,747	212,433
2012 Construction Fund	975,948	176,012	799,936
Building and Site Fund	163,299	222,256	(58,957)
	\$ 13,308,973	\$ 25,671,114	\$ (12,362,141)
Total Governmental Funds	\$ 13,308,973	\$ 25,671,114	\$ (12,362,141)

TRI COUNTY AREA SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2023

As we noted earlier, the District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District's overall financial health.

As the District completed this year, the governmental funds reported a combined fund balance of \$13,308,973, which is a decrease of \$12,362,141 from last year.

- The General Fund, our principal operating fund, increased its fund balance by \$160,386 for an ending balance of \$3,696,218. This increase is primarily due to an increase in revenues from the prior year, mostly due to an increase in state funding. Of the fund balance of \$3,696,218, \$98,467 is nonspendable for inventory and prepaid expenditures, \$804,767 is assigned for supply carryover and subsequent year budget shortfall, and \$2,792,984 is unassigned.
- 2019 Construction Fund decreased its fund balance by \$13,090,415 for an ending balance of \$6,282,620. This decrease is due to the District spending funds on various bond projects throughout the year. The entire fund balance is restricted for capital projects.
- The Food Service Fund decreased its fund balance by \$430,235 for an ending balance of \$850,460. The District operates a "Community Eligibility Provision" program which is highly effective and continues to have high participation. The District is working to spend down its excess fund balance by purchasing equipment which accounts for the decrease in fund balance. Of the fund balance of \$850,460, \$18,156 is nonspendable for inventory and \$832,304 is restricted for food service.
- The Child Care Fund increased its fund balance by \$44,441 for an ending balance of \$129,934. The increase in fund balance is due to increased federal funding as well as an increase in day care participants. The entire fund balance of \$129,934 is restricted for community services.
- The Student/School Activity Fund increased its fund balance by \$270 for an ending balance of \$152,314. The change in fund balance is minimal. The entire fund balance of \$152,314 is committed for student activities.
- 2019 Debt Service Fund increased its fund balance by \$212,433. The increase is due to property taxes collected exceeding the debt payments. The entire fund balance is restricted for debt service.
- Capital Project Fund increased its fund balance by \$799,936 for an ending balance of \$975,948. This increase is due to a transfer in from the General Fund. The entire fund balance is restricted for capital projects.
- The Building and Site Sinking Fund decreased its fund balance by \$58,957 for an ending balance of \$163,299. This decrease is due to capital outlay expenditures exceeding interest income. The entire fund balance is restricted for capital projects.

G. General Fund Budgetary Highlights

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

TRI COUNTY AREA SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2023

For the 2022-2023 fiscal year, the District amended the general fund budget various times throughout the year. The following schedule shows a comparison of the original general fund budget to actual totals from operations:

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
<u>TOTAL REVENUES</u>	\$ 21,883,262	\$ 25,812,604	\$ 25,363,235
<u>EXPENDITURES</u>			
Instruction	\$ 13,532,529	\$ 15,485,970	\$ 15,263,191
Supporting Services	8,018,214	8,979,483	8,597,900
Community Services	63,553	98,413	87,865
Facilities Acquisition, Construction and Improvements	130,000	79,717	84,757
Debt Services	442,100	442,100	442,100
Total Expenditures	<u>\$ 22,186,396</u>	<u>\$ 25,085,683</u>	<u>\$ 24,475,813</u>

The revenue budget was amended as it became clearer on the amounts the District would receive for local, state, federal, and other funding. The revenue variance between budget and actual was due to the District budgeting for the total amount of potential federal funding but only spending a portion of this, resulting in less recognized revenue and less expenditures related to those grants.

The expenditures were amended as it became clearer on the amounts that the District was going to be expending during the fiscal year. The expenditure variance between final budgeted to actual was due to the District's expenditures being under budget on various functions. The largest variance was related to Basic Programs (within Instruction) and Central Services (within Supporting Services) that were under budget by \$226,796 and \$224,454, respectively.

H. Capital Asset and Debt Administration

1. Capital Assets

At June 30, 2023, the District has \$60,357,837 in a broad range of capital assets, including school buildings and facilities, school buses, and various types of equipment. Depreciation expense for the year amounted to \$910,257, bringing the accumulated depreciation to \$13,594,655 as of June 30, 2023.

Major additions of capital assets consisted of the following items:

- High School food service equipment in the amount of \$294,510.
- Elementary Building in the amount of \$6,087,431, all of which is in construction in progress.
- Force Main Lagoon Abandonment Project in the amount of \$1,206,102, all of which is in construction in progress.
- High School Cafetorium in the amount of \$5,486,028, all of which is in construction in progress.
- Middle School Remodeling in the amount of \$747,596, all of which is in construction in progress.

TRI COUNTY AREA SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2023

The District has various contracts related to the use of capital project bond proceeds. These projects include the construction of the High School cafetorium and parking lot, Middle School remodeling, construction of a new Elementary School, roofing for MacNaughton Elementary School, wastewater treatment infrastructure, transportation projects, and athletic activity projects. In total the contracted amount for these projects is \$33,497,222. As of June 30, 2023, \$27,462,896 has been spent and the District has a remaining commitment of \$5,107,284 which will be expensed from the 2019 Construction Fund in future fiscal years. Additionally, the District has a contract for the purchase of three buses in the amount of \$334,980.

Additional information on the District's capital assets can be found in the notes to this report.

2. Long-Term Obligations

At the end of this year, the District had \$78,368,223 in long-term obligations outstanding versus \$64,072,824 in the previous year. This represents an increase of \$14,295,399 from the prior year. The majority of this debt consists of net bonds payable of \$36,422,336. Other obligations include amounts for employee compensated absences and retirement contracts estimated at \$416,423, net pension liability of \$39,161,576, net other postemployment benefits liability of \$2,158,678, and accrued interest of \$209,210.

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

I. Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

- State funding for the 2023-2024 school year was finalized in July 2023 whereas the per pupil foundation was increased by \$453 for a total of \$9,603 per pupil. Federal funding continues with FY24 being our last year for ESSER III funding. The District will apply the rest of ESSER III funds in FY24.
- The District's initial approved budget for the 2023-2024 school year projects approximately a \$764,031 use of fund balance. This, however, will change with the increase in per pupil funding as well as federal and state grants.
- In August 2019, the community approved a \$33 million bond for capital improvements. The projects approved include a new K-5 elementary building, a cafetorium at the high school, and other improvements to the District. It is expected that these monies will not increase the current tax levy and will provide the District with capacity for growth.
- Bargaining units negotiated a three-year contract ending June 2024 involving significant, long overdue pay raises.
- Employee retirement costs paid into the Michigan Public Schools Employees' Retirement System (MPSERS), controlled by the State, continues to be a cause for concern into the future. Prior year legislative groups have begun to address this unfunded liability, the fact remains there are less people paying into this system and more people receiving benefits each year, as state-wide decline in students have dictated retirees are not replaced locally on a one-to-one basis. For every dollar paid to employees

TRI COUNTY AREA SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2023

throughout the year, the District pays a percentage into MPSERS. Addressing the unfunded MPSERS liability is necessary; however, it does reduce the overall available funds to all districts, as this funding dedicates a portion of school aid directly to this item.

J. Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Tri County Area Schools, 94 Cherry Street, Sand Lake, MI 49343.

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2023

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 3,426,509
Restricted Cash	405,264
Restricted Investments	9,491,414
Accounts Receivable	36,222
Due from Other Governments	6,280,757
Inventories	38,659
Prepaid Expenses	<u>77,964</u>
Total Current Assets	<u>19,756,789</u>
<u>NONCURRENT ASSETS</u>	
Capital Assets (Net of Accumulated Depreciation)	
Assets Not Being Depreciated	32,197,400
Assets Being Depreciated	<u>14,565,782</u>
Total Non Current Assets	<u>46,763,182</u>
TOTAL ASSETS	<u>66,519,971</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred Outflows Related to Pensions	12,420,148
Deferred Outflows Related to Other Postemployment Benefits	<u>2,923,097</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>15,343,245</u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts & Retainage Payable	3,067,384
Salaries Payable	1,053,436
Payroll Related Liabilities	953,365
Due to Other Governments	758,793
Unearned Revenue	293,180
Current Portion of Non Current Liabilities	<u>1,144,000</u>
Total Current Liabilities	<u>7,270,158</u>

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

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2023

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>NONCURRENT LIABILITIES</u>	
Bonds Payable - Net	36,422,336
Compensated Absences and Retirement Contracts	416,423
Net Pension Liability	39,161,576
Net Other Postemployment Benefits	2,158,678
Accrued Interest	209,210
Less Current Portion of Non Current Liabilities	<u>(1,144,000)</u>
 Total Non Current Liabilities	 <u>77,224,223</u>
 TOTAL LIABILITIES	 <u>84,494,381</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred Inflows Related to Pensions	2,971,093
Deferred Inflows Related to Other Postemployment Benefits	<u>4,488,550</u>
 TOTAL DEFERRED INFLOWS OF RESOURCES	 <u>7,459,643</u>
<u>NET POSITION</u>	
Investment in Capital Assets	17,762,713
Restricted for Debt Service	848,970
Unrestricted - (Deficit)	<u>(28,702,491)</u>
 TOTAL NET POSITION - (Deficit)	 <u>\$ (10,090,808)</u>

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

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATING GRANTS	CAPITAL GRANTS	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
<u>GOVERNMENTAL ACTIVITIES</u>					
Instruction	\$ 13,998,934	\$ 0	\$ 5,930,064	\$ 0	\$ (8,068,870)
Supporting Services	8,534,617	47,591	2,314,756	0	(6,172,270)
Food Service Activities	1,280,389	35,911	1,194,947	0	(49,531)
Community Services	199,872	87,637	182,637	84,667	155,069
Facilities Acquisition, Construction and Improvements	149,019	0	0	0	(149,019)
Interest on Long-Term Debt	1,206,489	0	78,918	0	(1,127,571)
Unallocated Depreciation	910,257	0	0	0	(910,257)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 26,279,577	\$ 171,139	\$ 9,701,322	\$ 84,667	(16,322,449)
<u>GENERAL REVENUES</u>					
Property Taxes - Levied for General Purposes					2,513,343
Property Taxes - Levied for Debt Service					2,169,581
Investment Earnings					604,457
State Sources					13,227,423
Other					138,321
Total General Revenues					18,653,125
Change in Net Position					2,330,676
<u>NET POSITION</u> - Beginning of Year - (Deficit), As Restated					(12,421,484)
<u>NET POSITION</u> - End of Year - (Deficit)					\$ (10,090,808)

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

TRI COUNTY AREA SCHOOLS

HOWARD CITY, MICHIGAN

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2023

<u>ASSETS</u>	GENERAL FUND	2019 CONSTRUCTION FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Cash	\$ 602,256	\$ 0	\$ 2,567,367	\$ 3,169,623
Restricted Cash	0	405,264	0	405,264
Restricted Investments	0	9,491,414	0	9,491,414
Accounts Receivable	36,222	0	0	36,222
Due from Other Governments	6,262,275	0	18,482	6,280,757
Due from Other Funds	785,063	0	830,390	1,615,453
Inventory	20,503	0	18,156	38,659
Prepaid Expenditures	77,964	0	0	77,964
TOTAL ASSETS	\$ 7,784,283	\$ 9,896,678	\$ 3,434,395	\$ 21,115,356
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accounts & Retainage Payable	\$ 147,182	\$ 2,851,219	\$ 68,983	\$ 3,067,384
Salaries Payable	1,051,060	0	2,376	1,053,436
Payroll Related Liabilities	945,364	0	8,001	953,365
Due to Other Governments	758,793	0	0	758,793
Due to Other Funds	895,162	762,839	22,224	1,680,225
Unearned Revenue	290,504	0	2,676	293,180
Total Liabilities	4,088,065	3,614,058	104,260	7,806,383
<u>FUND BALANCES</u>				
Nonspendable:				
Inventory	20,503	0	18,156	38,659
Prepaid Expenditures	77,964	0	0	77,964
Restricted for:				
Food Service	0	0	832,304	832,304
Debt Service	0	0	1,058,180	1,058,180
Capital Projects	0	6,282,620	1,139,247	7,421,867
Community Services	0	0	129,934	129,934
Committed for:				
School Activities	0	0	152,314	152,314
Assigned for:				
Supply Carryover	40,735	0	0	40,735
Subsequent Year Budget Shortfall	764,032	0	0	764,032
Unassigned	2,792,984	0	0	2,792,984
Total Fund Balances	3,696,218	6,282,620	3,330,135	13,308,973
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,784,283	\$ 9,896,678	\$ 3,434,395	\$ 21,115,356

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

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

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

JUNE 30, 2023

Total Governmental Fund Balances	\$	13,308,973
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		
The cost of the capital assets is	\$	60,357,837
Accumulated depreciation is	<u>(13,594,655)</u>	46,763,182
Long-term liabilities are not due and payable in the current period and are not reported in the funds.		
Bonds Payable		(32,820,000)
Compensated Absences		(103,096)
Net Pension Liability		(39,161,576)
Net Other Postemployment Benefits Liability		(2,158,678)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid.		
		(209,210)
Bond discounts for bonds issued after June 30, 2002, are expenditures at the modified accrual fund level, but are capitalized and written off over the life of the bonds payable at the district-wide full accrual level.		
Bond Discount (Premium)		(3,602,336)
An Internal Service Fund is used by the District to charge the cost of compensated absences and retirement costs to the individual funds. The assets and liabilities of the fund are included with the governmental activities.		
		8,331
Deferred outflows and (inflows) of resources related to pensions and other postemployment benefits are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources - related to pensions		12,420,148
Deferred inflows of resources - related to pensions		(2,971,093)
Deferred outflows of resources - related to other postemployment benefits		2,923,097
Deferred inflows of resources - related to other postemployment benefits		<u>(4,488,550)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES (DEFICIT)	\$	<u><u>(10,090,808)</u></u>

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

TRI COUNTY AREA SCHOOLS

HOWARD CITY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2023

	GENERAL FUND	2019 CONSTRUCTION FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>				
Local Sources	\$ 2,846,607	\$ 528,224	\$ 2,480,069	\$ 5,854,900
State Sources	19,519,030	0	27,789	19,546,819
Federal Sources	2,351,191	0	1,359,808	3,710,999
Other Transactions	646,407	0	0	646,407
Total Revenues	25,363,235	528,224	3,867,666	29,759,125
<u>EXPENDITURES</u>				
Instruction	15,263,191	0	0	15,263,191
Supporting Services	8,597,900	2,400	174,816	8,775,116
Food Service Activities	0	0	1,598,900	1,598,900
Community Services	87,865	0	200,410	288,275
Facilities Acquisition, Construction and Improvements	84,757	13,616,239	68,888	13,769,884
Debt Service	442,100	0	1,983,800	2,425,900
Total Expenditures	24,475,813	13,618,639	4,026,814	42,121,266
Excess (Deficiency) of Revenues Over Expenditures	887,422	(13,090,415)	(159,148)	(12,362,141)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	72,900	0	799,936	872,836
Transfers Out	(799,936)	0	(72,900)	(872,836)
Total Other Financing Sources (Uses)	(727,036)	0	727,036	0
Net Change In Fund Balances	160,386	(13,090,415)	567,888	(12,362,141)
<u>FUND BALANCE</u> - Beginning of Year, As Restated	3,535,832	19,373,035	2,762,247	25,671,114
<u>FUND BALANCE</u> - End of Year	\$ 3,696,218	\$ 6,282,620	\$ 3,330,135	\$ 13,308,973

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

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

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

YEAR ENDED JUNE 30, 2023

Net Change in Fund Balances Total Governmental Funds \$ (12,362,141)

Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures. In the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(910,257)
Capital Outlay	14,057,836
Net Cost of Capital Assets Disposed	(40,125)

Accrued interest on bonds is recorded in the Statement of Activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued Interest Payable - Beginning of Year	212,878
Accrued Interest Payable - End of Year	(209,210)

The issuance of Long-Term Debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

Repayment of Bond Principal	1,052,000
Amortization of Deferred Charges and Bond Issuance Premium	163,743

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

Change in Pension Related Items	(120,277)
Change in Other Postemployment Benefit Related Items	1,657,542

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

Change in State Aid Funding for Pension Benefits	(1,155,187)
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The accompanying notes are an integral part of these financial statements.

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

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

YEAR ENDED JUNE 30, 2023

The net income (expenses) of certain activities of the Internal Service Fund are reported in the Statement of Activities	6,315
Employees Compensated Absences are reported on the accrual method in the Statement of Activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Compensated Absences - Beginning of Year	80,655
Compensated Absences - End of Year	<u>(103,096)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 2,330,676</u>

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

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

STATEMENT OF NET POSITION
PROPRIETARY FUND

JUNE 30, 2023

	<u>INTERNAL SERVICE FUND</u>
<u>ASSETS</u>	
Cash	\$ 256,886
Due from Other Funds	<u>64,772</u>
 TOTAL ASSETS	 321,658
 <u>LIABILITIES</u>	
Compensated Absences	<u>313,327</u>
 <u>NET POSITION</u>	
Unrestricted	<u><u>\$ 8,331</u></u>

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

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND

YEAR ENDED JUNE 30, 2023

	<u>INTERNAL SERVICE FUND</u>
<u>OPERATING REVENUES</u>	<u>\$ 0</u>
<u>OPERATING EXPENSES</u>	<u>0</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>	
Interest Earnings	<u>6,315</u>
Change in Net Position	6,315
<u>NET POSITION - Beginning of Year</u>	<u>2,016</u>
<u>NET POSITION - End of Year</u>	<u><u>\$ 8,331</u></u>

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

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

YEAR ENDED JUNE 30, 2023

	<u>INTERNAL SERVICE FUND</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Net Cash Received from Other Funds	<u>\$ (48,347)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	<u>6,315</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(42,032)
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	<u>298,918</u>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	<u><u>\$ 256,886</u></u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>	
Operating Income (Loss)	<u>\$ 0</u>
Adjustments to Reconcile Operating Income (Loss)	
(Increase) Decrease in Current Assets	
Due from Other Funds	(27,192)
Increase (Decrease) in Liabilities	
Compensated Absences	<u>(21,155)</u>
Total Adjustments	<u>(48,347)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ (48,347)</u></u>

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

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The School District (“the District”) is located in Montcalm, Newaygo, and Kent Counties with its administrative offices located in Sand Lake, Michigan. The District operates under an elected 7-member board of education and provides services to its 1,739 students in elementary, middle school, high school, special education instruction, transportation, food service and athletics. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

B. Description of Government-Wide Financial Statements

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

C. Basis of Presentation – Government-Wide Financial Statements

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

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

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government’s funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

The District reports the following major governmental funds:

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

The *2019 construction fund* accounts for the acquisition of capital assets or construction of major capital projects.

Additionally, the District reports the following fund type:

The *internal service fund* accounts for operations that provide services to other departments or agencies of the District.

Other non-major funds:

The *special revenue (School Service) funds* account for revenue sources that are legally restricted and or committed to expenditures for specific purposes. The District accounts for its food service, child care, and school activities in a special revenue fund.

The *2019 debt service fund* is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The *Capital Project fund* is used to account for financial resources to be used for major improvement projects and is primarily funded from transfers in from the general fund.

The Sinking Fund *building and site fund* accounts for activities funded with the Sinking Fund millage approved by voters.

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

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

E. Measurement Focus and Basis of Accounting

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

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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

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

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

F. Budgetary Information

1. Budgetary Basis of Accounting

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

The District's approved budgets were adopted at the function level for the General and Special Revenue Funds. These are the legal enacted levels under the State Uniform Budgeting and Accounting Act and the level of budgetary control adopted by the Board (the level at which expenditures may not legally exceed appropriations).

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

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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

- a) In June, the superintendent submits to the school board a proposed operating budget for the fiscal year commencing on July 1.
- b) A public hearing is conducted during June to obtain taxpayer comments.
- c) Prior to July 1, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year, when necessary, to adjust appropriations if it appears that revenues and other financial sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated.
- d) The superintendent is charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.
- e) For purposes of meeting emergency needs of the District, transfer of appropriations may be made by the authorization of the superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- f) During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
- g) Budgeted amounts are as originally adopted on June 27, 2022, or as amended by the School Board of Education throughout the year.

2. Excess of Expenditures over Appropriations

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
<u>General Fund</u>		
Instruction		
Added Needs	\$ 4,306,274	\$ 4,310,291
Supporting Services		
Operations and Maintenance	1,490,349	1,631,901
Facilities Acquisition, Construction and Improvements		
Building Improvements Services	79,717	84,757
<u>Food Service Fund</u>		
Food Service Activities	1,573,723	1,598,900
<u>Child Care Fund</u>		
Community Services	170,520	200,410
<u>Student/School Activity Fund</u>		
Other Support Services	64,300	174,816

These overages were funded by available fund balance.

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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

1. Cash and Cash Equivalents

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

2. Investments

In accordance with Michigan Compiled Laws, the District is authorized to invest in the following investment vehicles:

- a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration (NCUA), but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
- c) Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d) The United States government or federal agency obligations repurchase agreements.
- e) Bankers acceptances of United States banks.
- f) Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

3. Inventory and Prepaid Items

Inventory is valued at cost using the first in/first out method. Inventory consists of expendable supplies held for consumption, which are recorded as expenditures when consumed rather than when purchased.

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

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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

4. Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities' column in the District-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Land and construction in progress, if any, are not depreciated. Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Buildings and Improvements	20 - 50 Years
Furniture and Equipment	5 – 20 Years
Vehicles	5 – 10 Years

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. They are 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 expenses in the plan year in which they apply. Details can be found in footnote 3.E and 3.F.

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

6. Defined Benefit Plans

For purposes of measuring the net pension and other postemployment benefit liabilities, deferred outflows of resources and deferred inflows of resources related to pensions, and pension and other postemployment benefits, and pension and other postemployment benefits expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPERS) and additions to/deductions from MPERS

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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

7. *Unearned Revenue*

Unearned revenue arises when resources are received by the District before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenues is recognized. The District has unearned revenue in the Food Service Fund that is related to money received from students for meals in advance and in the General Fund that is related to unspent federal and state resources received.

8. *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.

9. *Fund Balance Flow Assumption*

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.

10. *Fund Balance Policies*

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

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

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words,

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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.

11. Use of Estimates

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

H. Revenues and Expenditures/Expenses

1. State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2023 the foundation allowance was based on pupil membership counts taken in October 2022 and February 2022. For fiscal year ended June 30, 2023, the per pupil foundation allowance was \$9,150 for Tri County Area Schools.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2022 to August 2023. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

2. Program Revenues

Amounts reported as program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, state foundation aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenue but instead as *general revenues*.

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3. Property Taxes

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

For the year ended June 30, 2023, the District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund – Non-Principal Residence Exemption (PRE)	17.6418
General Fund – Commercial Personal Property	5.6418
2019 Debt Fund – Bond Debt	4.3500

4. Compensated Absences

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

5. Early Retirement Incentive, Accumulated Vacation Pay and Sick Leave

Early retirement incentive, accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination and the related payroll taxes at June 30, 2023, have been computed and recorded in the basic financial statements of the District. Eligible District employees who select early retirement are entitled to reimbursement for a portion of their unused vacation and sick days. At June 30, 2023, the accumulated liabilities including salary related payments, (expected to be financed by General Fund revenues) for accumulated vacation pay and sick leave amount to \$313,327.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Violations of Legal or Contractual Provisions

Note I.F.2, on the Excess of Expenditures Over Appropriations, describes a budgetary violation that occurred for the year ended June 30, 2023.

NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

As of June 30, 2023, the District had deposits and investments subject to the following risks:

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. As of June 30, 2023, the District’s bank balance was \$4,733,974 and \$965,514 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying value on the books for deposits at the end of the fiscal year was \$3,831,773.

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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 investing pools and limiting the average maturity in accordance with the District’s cash requirements.

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
MILAF+ Cash Management Class	\$ 2,111,019	N/A
MILAF+ MAX Class	5,274,945	N/A
U.S. Treasury Notes	2,105,450	0.1458
	<u>\$ 9,491,414</u>	
Portfolio Weighted Average Maturity		<u>0.1458</u>

Credit Risk – State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSOs). Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

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. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

	<u>Fair Value</u>	<u>Standard & Poor's Rating</u>	<u>%</u>
MILAF+ Cash Management Class	\$ 2,111,019	AAAm	22.24%
MILAF+ MAX Class	5,274,945	AAAm	55.58%
U.S. Treasury Notes	2,105,450	AA+	22.18%
	<u>\$ 9,491,414</u>		<u>100.00%</u>

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

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

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qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the District will do business.

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

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

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

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

	Level 1	Level 2	Level 3	Balance at June 30, 2023
Investments by fair value level				
U.S. Treasury Notes	\$ 0	\$ 2,105,450	\$ 0	\$ 2,105,450

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

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

	Amortized Cost
MILAF+ Cash Management Class	\$ 2,111,019
MILAF+ MAX Class	5,274,945
	\$ 7,385,964

The cash and investments referred to above have been reported in either the cash or investments captions on the financial statements, based upon criteria disclosed in Note 1.

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The following summarizes the categorization of these amounts as of June 30, 2023:

	Governmental Activities
Cash	\$ 3,426,509
Restricted Cash	405,264
Restricted Investments	9,491,414
	\$ 13,323,187

B. Receivables

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

	General Fund	Nonmajor Funds	Total
Receivable			
Accounts	\$ 36,222	\$ 0	\$ 36,222
Due from Other Governments	6,262,275	18,482	6,280,757
	\$ 6,298,497	\$ 18,482	\$ 6,316,979

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

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

C. Capital Assets

Capital assets activity for the year ended June 30, 2023, was as follows:

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023
Capital assets not being depreciated				
Construction in Progress	\$ 17,832,877	\$ 13,573,127	\$ 0	\$ 31,406,004
Land	791,396	0	0	791,396
Subtotal	18,624,273	13,573,127	0	32,197,400
Capital assets being depreciated				
Buildings and Improvements	24,857,778	409,601	0	25,267,379
Furniture and Equipment	1,164,470	18,747	0	1,183,217
Vehicles	1,941,798	56,361	288,318	1,709,841
Subtotal	27,964,046	484,709	288,318	28,160,437

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	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023
Less accumulated depreciation for:				
Buildings and Improvements	10,737,824	676,299	0	11,414,123
Furniture and Equipment	884,266	31,743	0	916,009
Vehicles	1,310,501	202,215	248,193	1,264,523
Accumulated depreciation	12,932,591	910,257	248,193	13,594,655
Net capital assets being depreciated	15,031,455	(425,548)	40,125	14,565,782
Net capital assets	\$ 33,655,728	\$ 13,147,579	\$ 40,125	\$ 46,763,182

Depreciation for the fiscal year ended June 30, 2023, amounted to \$910,257. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

D. Defined Benefit Plan and 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 Annual Comprehensive Financial Report that can be obtained at www://michigan.gov/orsschools.

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

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Benefits Provided – Pension

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

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

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010, is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus 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 transition date (0% for Basic plan members,

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3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

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

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

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

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

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

Pension Reform of 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closed the Pension Plus plan to newly hired employees as of February 1, 2018, and created a new, optional Pension Plus 2 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 Pension Plus 2 plan is 6%. Further, under certain adverse actuarial conditions, the Pension Plus 2 plan will close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The law included other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Benefits Provided – Other postemployment benefit (OPEB)

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

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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.

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

Member Contributions

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

Employer Contributions

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

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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 normal cost is the annual cost assigned under the actuarial funding method, to the current and subsequent plan years. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

Pension and OPEB contributions made in the fiscal year ending September 30, 2022, were determined as of the September 30, 2019, actuarial valuations. The pension and OPEB benefits, the unfunded (overfunded) actuarial accrued liabilities as of September 30, 2019, are amortized over an 17-year period beginning October 1, 2021 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:

	<u>Pension</u>	<u>Other Postemployment Benefit</u>
October 1, 2021 - September 30, 2022	13.73% - 20.14%	7.23% - 8.09%
October 1, 2022 - September 30, 2023	13.75% - 20.16%	7.21% - 8.07%

The District's pension contributions for the year ended June 30, 2023, were equal to the required contribution total. Total pension contributions were approximately \$4,851,000. Of the total pension contributions, approximately \$4,751,000 was contributed to fund the Defined Benefit Plan and approximately \$100,000 was contributed to fund the Defined Contribution Fund.

The District's OPEB contributions for the year ended June 30, 2023, were equal to the required contribution total. Total OPEB contributions were approximately \$855,000. Of the total OPEB contributions, approximately \$768,000 was contributed to fund the Defined Benefit Plan and approximately \$87,000 was contributed fund to the Defined Contribution Fund.

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

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

Pension Liabilities

At June 30, 2023, the District reported a liability of \$39,161,576 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2021, 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, 2022 and 2021, the District's proportion was 0.10412898% and 0.10255764%.

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MPSERS (Plan) Non-University Net Pension Liability

	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Total Pension Liability	\$ 95,876,795,620	\$ 86,392,473,395
Fiduciary Net Position	(58,268,076,344)	(62,717,060,920)
Net Pension Liability	<u>\$ 37,608,719,276</u>	<u>\$ 23,675,412,475</u>
Fiduciary Net Position as a Percentage of Total Pension Liability	60.77%	72.60%
Net Pension Liability as a percentage of Covered Payroll	386.25%	261.68%

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

For the year ended June 30, 2023, the District recognized total pension expense of \$4,835,680.

At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 391,752	\$ 87,561
Changes of assumptions	6,729,362	0
Net difference between projected and actual earnings on pension plan investments	91,834	0
Changes in proportion and differences between District contributions and proportionate share of contributions	713,916	101,544
District section 147c revenue related to pension contributions subsequent to the measurement date	0	2,781,988
District contributions subsequent to the measurement date	<u>4,493,284</u>	<u>0</u>
Total	<u>\$ 12,420,148</u>	<u>\$ 2,971,093</u>

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\$4,493,284 reported as deferred outflows of resources and \$2,781,988 reported as deferred inflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a net 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 Ended September 30,</u>	<u>Amount</u>
2023	\$ 2,230,856
2024	1,760,370
2025	1,456,888
2026	2,289,645
	\$ 7,737,759

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

OPEB Liabilities

At June 30, 2023, the District reported a liability of \$2,158,678 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2021, 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, 2022 and 2021, the District's proportion was 0.10191756% and 0.10242327%.

MPSERS (Plan) Non-University Employers Net OPEB Liability

	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Total OPEB Liability	\$ 12,522,713,324	\$ 12,046,393,511
Fiduciary Net Position	(10,404,650,683)	(10,520,015,621)
Net OPEB Liability	\$ 2,118,062,641	\$ 1,526,377,890
Fiduciary Net Position as a Percentage of Total OPEB Liability	83.09%	87.33%
Net OPEB Liability as a Percentage of Covered Payroll	21.75%	16.87%

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

For the year ended June 30, 2023, the District recognized total OPEB benefit of \$877,322.

At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 0	\$ 4,228,023
Changes of assumptions	1,924,099	156,671
Net difference between projected and actual earnings on OPEB plan investments	168,718	0
Changes in proportion and differences between District contributions and proportionate share of contributions	162,784	103,856
District contributions subsequent to the measurement date	667,496	0
Total	<u>\$ 2,923,097</u>	<u>\$ 4,488,550</u>

\$667,496 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 Ended September 30,</u>	<u>Amount</u>
2023	\$ (829,604)
2024	(701,370)
2025	(615,609)
2026	(42,444)
2027	(43,036)
Thereafter	(886)
	<u>\$ (2,232,949)</u>

G. Actuarial Assumptions

Investment rate of return for Pension – 6.00% a year, compounded annually net of investment and administrative expenses for the MIP, Basic, and Pension Plus groups.

Investment rate of return for OPEB – 6.00% a year, compounded annually net of investment and administrative expenses.

Salary increases - The rate of pay increase used for individual members is 2.75% - 11.55%, including inflation at 2.75%.

Inflation – 3.0%

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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, 2021. 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, 2018 valuation.

The long-term expected rate of return on pension and other postemployment benefit plan investments - The pension rate was 6.00% (MIP, Basic, Pension Plus Plan, and Pension Plus 2 Plan) and the other postemployment benefit rate was 6.00%, 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 and OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Healthcare cost trend rate for other postemployment benefit – Pre 65, 7.75% for year one and graded to 3.5% in year fifteen. Post 65, 5.25% for year one and graded to 3.5% in year fifteen.

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, 2022 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return *</u>
Domestic Equity Pools	25.00%	5.10%
Private Equity Pools	16.00%	8.70%
International Equity Pools	15.00%	6.70%
Fixed Income Pools	13.00%	-0.20%
Real Estate & Infrastructure Pools	10.00%	5.30%
Absolute Return Pools	9.00%	2.70%
Real Return/Opportunistic Pools	10.00%	5.80%
Short-Term Investment Pools	2.00%	-0.50%
	<u>100%</u>	

*Long-term rate of return are net of administrative expenses and 2.2% inflation.

Rate of return

For fiscal year ended September 30, 2022, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was (4.18)% and (4.99)% respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Pension Discount Rate

A single discount rate of 6.00% was used to measure the total pension liability. This discount rate was based on the expected rate of return on pension plan investments of 6.00%. 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.

OPEB Discount Rate

A single discount rate of 6.00% 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 6.00%. 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.

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

The following presents the District's proportionate share of the net pension liability calculated using a single discount rate of 6.00%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

Pension				
1% Decrease	Discount Rate		1% Increase	
\$	51,678,731	\$	39,161,576	\$ 28,846,876

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

The following presents the District's proportionate share of the net OPEB liability calculated using a single discount rate of 6.00%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

OPEB				
1% Decrease	Discount Rate		1% Increase	
\$	3,620,974	\$	2,158,678	\$ 927,243

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

The following presents the District's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate as well as what the District'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:

OPEB				
Current Healthcare Cost				
1% Decrease	Trend Rates		1% Increase	
\$	903,951	\$	2,158,678	\$ 3,467,133

H. Pension and OPEB Plan Fiduciary Net Position

Detailed information about the pension and OPEB plan's fiduciary net position is available in the separately issued Michigan Public School Employees' Retirement System 2022 Annual Comprehensive Financial Report.

I. Payables to the Pension and OPEB Plan

As of June 30, 2023, the District is current on all required pension and OPEB plan payments. As of June 30, 2023, the District reported payables in the amount of \$1,055,377 to the pension and OPEB plans. These amounts represent current payments for June wages paid in July, accruals for summer pay primarily for teachers and also the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL).

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J. Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees.

The School District participates in a distinct pool of Educational Institutions within the State of Michigan for various risks of loss, including general liability, property and casualty, employee health and accident insurance, and workers' disability compensation. The pool is considered a public entity risk pool. The School District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The School District has not been informed of any special assessments being required.

K. GASB Statement No. 87 – Leases

It has been determined that the District has leases as defined by GASB Statement No. 87. However, the total of these leases has been determined they are not significant enough to warrant disclosure.

L. GASB Statement No. 96 – Subscription-based Information Technology Arrangements

It has been determined that the District has subscription-based information technology arrangements as defined by GASB Statement No. 96. However, the total of these subscription-based information technology arrangements has been determined they are not significant enough to warrant disclosure.

M. Long-Term Obligations

The following is a summary of the governmental long-term liability transactions for the District for the year ended June 30, 2023:

	Compensated Absences and Retirement Contracts	Bonds	Net Pension Liability	Net OPEB Liability	Total
Balance July 1, 2022, as restated	\$ 377,557	\$ 33,872,000	\$ 24,280,944	\$ 1,563,366	\$ 60,093,867
Additions	77,155	0	18,424,752	1,371,652	19,873,559
Deletions	(38,289)	(1,052,000)	(3,544,120)	(776,340)	(5,410,749)
Balance June 30, 2023	416,423	32,820,000	39,161,576	2,158,678	74,556,677
Less current portion	Unknown	(1,144,000)	Unknown	Unknown	(1,144,000)
Due in more than one year	<u>\$ 416,423</u>	<u>\$ 31,676,000</u>	<u>\$ 39,161,576</u>	<u>\$ 2,158,678</u>	<u>\$ 73,412,677</u>

TRI COUNTY AREA SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

The District's debt obligations at June 30, 2023, are comprised of the following issues:

Sick Pay & Retirement Incentive and Net Pension Liability

Compensated Absences and Retirement Contracts	\$ 416,423
Net Pension Liability	39,161,576
Net OPEB Liability	2,158,678

General Obligation Bonds

2019 School Building and Site Bonds due in annual installments of \$775,000 to \$2,240,000 through May 1, 2044, with interest at 4.00%.	31,265,000
2012 Limited Tax Qualified Zone Academy Energy Conservation Bond (QZAB loan) due in annual installments of \$369,000 to \$404,000 through June 1, 2027, with interest at 5%.	1,555,000
	<u>\$ 74,556,677</u>

The annual requirements to amortize all long-term obligations outstanding as of June 30, 2023, including interest payments of \$16,138,250 are as follows:

YEAR ENDING JUNE 30,	GENERAL OBLIGATION BONDS		TOTAL
	PRINCIPAL	INTEREST	
2024	\$ 1,144,000	\$ 1,328,350	\$ 2,472,350
2025	1,232,000	1,278,900	2,510,900
2026	1,315,000	1,225,800	2,540,800
2027	1,399,000	1,169,200	2,568,200
2028	1,080,000	1,109,200	2,189,200
2029-2033	6,440,000	4,839,800	11,279,800
2034-2038	8,045,000	3,425,800	11,470,800
2039-2043	9,925,000	1,671,600	11,596,600
2044	2,240,000	89,600	2,329,600
	<u>\$ 32,820,000</u>	<u>\$ 16,138,250</u>	48,958,250
Net Pension Liability			39,161,576
Net OPEB Liability			2,158,678
Compensated Absences and Retirement Contracts			416,423
			<u>\$ 90,694,927</u>

Interest expense for the year ended June 30, 2023 was approximately \$1,206,489.

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

TRI COUNTY AREA SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
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Compensated absences and net pension and OPEB liabilities will be paid by the fund in which the employee worked, including the general fund and other governmental funds.

N. Short-Term Obligations

On August 20, 2022, the District issued a State Aid Line of Credit in the amount of \$1,500,000 for the purpose of managing the District's cash flow needs during the year. The note carried an interest rate of 3.4% which matures August 20, 2023. The District has pledged its future State Aid revenue for payment of this liability at maturity.

The notes are secured by the full faith and credit of the District as well as pledged state aid. In an event of a default on the note, the state may impose a penalty interest rate and at the state's discretion, accelerate the repayment terms. At year end, there is no balance on the line of credit and during the year the District borrowed no more than \$1,500,000 at any given time. During the 2022-2023 fiscal year, the District borrowed and repaid a total of \$1,665,000.

The following is a summary of the short-term obligations transactions for the District for the year ended June 30, 2023:

	STATE AID LINE OF CREDIT
Balance - July 1, 2022	\$ 0
Additions	1,665,000
Deletions	(1,665,000)
Balance - June 30, 2023	\$ 0

O. Interfund Receivables and Payables

Individual fund interfund receivable and payable balances at June 30, 2023, were:

Receivable Fund	Payable Fund	Amount
2012 Construction Fund	General Fund	\$ 799,936
Child Care Fund	General Fund	30,454
Internal Service Fund	General Fund	64,772
General Fund	2019 Construction Fund	762,839
General Fund	Food Service Fund	20,279
General Fund	Student/School Activity Fund	1,945
		\$ 1,680,225

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. All Interfund balances outstanding at June 30, 2023 are expected to be repaid within one year.

TRI COUNTY AREA SCHOOLS
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JUNE 30, 2023

Individual fund transfers at June 30, 2023, were:

<u>Fund Transferred To</u>	<u>Funds Transferred From</u>	<u>Amount</u>
General Fund	Child Care Fund	\$ 7,900
General Fund	Food Service Fund	65,000
2012 Construction Fund	General Fund	<u>799,936</u>
		<u>\$ 872,836</u>

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

P. Other Information

1. Contingencies

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

2. Commitments

The District has various contracts related to the use of capital project bond proceeds. These projects include the construction of the High School cafetorium and parking lot, Middle School remodeling, construction of a new Elementary School, roofing for MacNaughton Elementary School, wastewater treatment infrastructure, transportation projects, and athletic activity projects. In total the contracted amount for these projects is \$33,497,222. As of June 30, 2023, \$27,462,896 has been spent and the District has a remaining commitment of \$5,107,284 which will be expensed from the 2019 Construction Fund in future fiscal years. Additionally, the District has a contract for the purchase of three buses in the amount of \$334,980.

3. Subsequent Events

Subsequent to June 30, 2023, the following items are noted for disclosure:

- The District received a State Aid Note in the amount of \$1,000,000 on August 10, 2023, to help meet the District's cash flow needs for the beginning of the 2023-2024 fiscal year.
- On July 10, 2023, the District approved a phone system upgrade in the amount of \$94,083.
- On July 10, 2023, the District approved an installment purchase agreement for the purchase of three buses in the amount of \$334,980.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

No adjustments were made to the financial statements for the year ending June 30, 2023, related to these subsequent events.

4. Building & Site Capital Projects Fund

The transactions for the sinking fund are accounted for in a capital projects fund. For this fund, the School Districted has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

5. 2019 Construction Capital Projects Fund

The capital projects fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

6. Single Audit

Current federal guidelines require entities with federal expenditures exceeding \$750,000 to have a “single audit” of federally funded programs. This audit is being performed and the reports based thereon will be issued under a separate cover.

Q. Restatement of Fund Balance/Net Position

During the 2022-2023 fiscal year, an adjustment was made to the fund balance and net position stated in the June 30, 2022, audit report. The prior period fund balance and net position was restated to correct accounts for retainage payable, decrease payroll related liabilities, adjustments to due to and from other funds, capital assets, compensated absences, and deferred inflows and outflows of resources related to pension and OPEB liabilities. The following table summarizes the adjustments made to beginning fund balance and net position:

	Fund Balance			
	2019			
	General Fund	Construction Fund	Food Service Fund	Child Care Fund
Governmental Funds - As Previously Reported as of June 30, 2022	\$ 3,744,466	\$ 20,752,884	\$ 1,283,391	\$ 47,590
Accounts and Retainage Payable	54,314	(1,379,849)	0	0
Due from (to) Other Funds	(75,483)	0	0	37,903
Payroll Related Liabilities	(187,465)	0	(2,696)	0
Total Restatement	(208,634)	(1,379,849)	(2,696)	37,903
Governmental Funds - Restated as of June 30, 2022	\$ 3,535,832	\$ 19,373,035	\$ 1,280,695	\$ 85,493

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

	Net Position
Internal Service Fund -	
As Previously Reported as of June 30, 2022	\$ 2,016
Accounts Payable	(37,580)
Due from (to) Other Funds	37,580
Total Restatement	0
Internal Service Funds -	
Restated as of June 30, 2022	\$ 2,016

	Net Position
Governmental Activities -	
As Previously Reported as of June 30, 2022 (Deficit)	\$ (11,446,840)
Change in Fund Balance	(1,553,276)
Capital Assets (Net)	2,252,786
Compensated Absences	(2,875)
Deferred Outflows of Resources related to Pension Liabilities	22,902
Deferred Outflows of Resources related to OPEB Liabilities	(67,380)
Deferred Inflows of Resources related to Pension Liabilities	(1,626,801)
Total Restatement	(974,644)
Governmental Activities -	
Restated as of June 30, 2022	\$ (12,421,484)

R. Upcoming Accounting Pronouncements

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62*. This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2023-2024 fiscal year.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2024-2025 fiscal year.

TRI COUNTY AREA SCHOOLS

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REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2023

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Local Sources	\$ 2,693,801	\$ 2,918,634	\$ 2,846,607
State Sources	17,165,884	19,703,590	19,519,030
Federal Sources	1,581,061	2,538,045	2,351,191
Other Transactions	442,516	652,335	646,407
Total Revenues	<u>21,883,262</u>	<u>25,812,604</u>	<u>25,363,235</u>
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	9,853,157	11,179,696	10,952,900
Added Needs	3,679,372	4,306,274	4,310,291
Supporting Services			
Pupil	1,420,880	1,350,295	1,191,081
Instructional Staff	691,396	818,192	721,684
General Administration	353,060	667,856	654,189
School Administration	1,217,399	1,414,623	1,409,648
Business	333,713	390,726	383,546
Operations and Maintenance	1,402,532	1,490,349	1,631,901
Transportation Services	1,443,243	1,309,946	1,302,325
Central Services	761,392	1,076,782	852,328
Athletic Activities	394,599	460,714	451,198
Community Services			
Community Activities	500	13,349	5,153
Non-Public School Pupils	63,053	85,064	82,712
Facilities Acquisition, Construction and Improvements			
Building Improvements Services	130,000	79,717	84,757
Debt Service			
Principal	347,000	347,000	347,000
Interest	95,100	95,100	95,100
Total Expenditures	<u>22,186,396</u>	<u>25,085,683</u>	<u>24,475,813</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(303,134)</u>	<u>726,921</u>	<u>887,422</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	0	90,000	72,900
Transfers Out	(23,000)	(799,936)	(799,936)
Total Other Financing Sources (Uses)	<u>(23,000)</u>	<u>(709,936)</u>	<u>(727,036)</u>
Net Change In Fund Balances	(326,134)	16,985	160,386
<u>FUND BALANCE</u> - Beginning of Year, As Restated	<u>3,438,461</u>	<u>3,438,461</u>	<u>3,535,832</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 3,112,327</u>	<u>\$ 3,455,446</u>	<u>\$ 3,696,218</u>

TRI COUNTY AREA PUBLIC SCHOOLS
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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH PLAN YEAR)
JUNE 30, 2023

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of net pension liability (%)		0.1041290%	0.1025576%	0.1006705%	0.1001839%	0.1028800%	0.1041700%	0.10352000%	0.10860000%	0.10975%
District's proportionate share of net pension liability		\$ 39,161,576	\$ 24,280,944	\$ 34,581,412	\$ 33,177,526	\$ 30,927,618	\$ 26,994,417	\$ 25,828,473	\$ 26,524,394	\$ 24,174,805
District's covered payroll		9,997,579	9,333,568	8,978,661	8,667,969	8,566,816	8,802,399	8,532,240	9,254,815	9,256,917
District's proportionate share of net pension liability as a percentage of its covered payroll		391.71%	260.15%	385.15%	382.76%	361.02%	306.67%	302.72%	286.60%	261.15%
Plan fiduciary net position as a percentage of total pension liability		60.77%	72.60%	59.72%	60.31%	62.36%	64.21%	63.27%	63.17%	66.20%

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS

MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)
JUNE 30, 2023

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contributions		\$ 4,493,284	\$ 3,543,829	\$ 3,091,915	\$ 2,798,413	\$ 2,612,452	\$ 2,847,825	\$ 2,457,083	\$ 2,203,178	\$ 1,996,872
Contributions in relation to statutorily required contributions *		4,493,284	3,543,829	3,091,915	2,798,413	2,612,452	2,847,825	2,457,083	2,203,178	1,996,872
Contribution deficiency (excess)		\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll		\$ 10,193,051	\$ 9,708,501	\$ 9,197,151	\$ 9,016,539	\$ 8,652,814	\$ 8,605,867	\$ 8,748,536	\$ 8,571,223	\$ 9,121,654
Contributions as a percentage of covered payroll		44.08%	36.50%	33.62%	31.04%	30.19%	33.09%	28.09%	25.70%	21.89%

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

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OTHER POSTEMPLOYMENT BENEFIT LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH PLAN YEAR)
JUNE 30, 2023

	2026	2025	2024	2023	2022	2021	2020	2019	2018	2017
District's proportion of net OPEB liability (%)					0.10191756%	0.10242327%	0.10089094%	0.99064670%	0.10066000%	0.10358000%
District's proportionate share of net OPEB liability					\$ 2,158,678	\$ 1,563,366	\$ 5,404,997	\$ 7,110,612	\$ 8,001,419	\$ 9,172,319
District's covered payroll					9,997,579	9,333,568	8,978,661	8,667,969	8,566,816	8,802,399
District's proportionate share of net OPEB liability as a percentage of its covered payroll					21.59%	16.75%	60.20%	82.03%	93.40%	104.20%
Plan fiduciary net position as a percentage of total OPEB liability					83.09%	87.33%	59.44%	48.46%	42.95%	36.39%

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)
JUNE 30, 2023

	2027	2026	2025	2024	2023	2022	2021	2020	2019	2018
Statutorily required contributions					\$ 667,496	\$ 744,655	\$ 760,682	\$ 739,483	\$ 715,875	\$ 606,339
Contributions in relation to statutorily required contributions *					667,496	744,655	760,682	739,483	715,875	606,339
Contribution deficiency (excess)					\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll					\$ 10,193,051	\$ 9,708,501	\$ 9,197,151	\$ 9,016,539	\$ 8,652,814	\$ 8,605,867
Contributions as a percentage of covered payroll					6.55%	7.67%	8.27%	8.20%	8.27%	7.05%

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

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

Pension Information

Changes of Benefit Terms - There were no changes of benefit terms for the plan year ended September 30, 2022.

Changes of Assumptions – The assumption changes for the plan year ended September 30, 2022 were:

Discount rate for MIP, Basic, and Pension Plus plans decreased to 6.00% from 6.80%.

OPEB Information

Changes of Benefit Terms - There were no changes of benefit terms for the plan year ended September 30, 2022.

Changes of Assumptions – The assumption changes for the plan year ended September 30, 2022 were:

Discount rate decreased to 6.00% from 6.95%.

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES

JUNE 30, 2023

	SPECIAL REVENUE FUNDS			DEBT SERVICE	CAPITAL PROJECTS		TOTAL
	FOOD	CHILD	STUDENT/SCHOOL	2019	CAPITAL	BUILDING AND	NONMAJOR
	SERVICE	CARE	ACTIVITY	DEBT SERVICE	PROJECT	SITE SINKING	GOVERNMENTAL
	FUND	FUND	FUND	FUND	FUND	FUND	FUNDS
<u>ASSETS</u>							
Cash	\$ 914,666	\$ 100,955	\$ 154,259	\$ 1,058,176	\$ 176,012	\$ 163,299	\$ 2,567,367
Due from Other Governments	18,478	0	0	4	0	0	18,482
Due from Other Funds	0	30,454	0	0	799,936	0	830,390
Inventory	18,156	0	0	0	0	0	18,156
TOTAL ASSETS	\$ 951,300	\$ 131,409	\$ 154,259	\$ 1,058,180	\$ 975,948	\$ 163,299	\$ 3,434,395
<u>LIABILITIES AND FUND BALANCE</u>							
<u>LIABILITIES</u>							
Accounts Payable	\$ 67,508	\$ 1,475	\$ 0	\$ 0	\$ 0	\$ 0	\$ 68,983
Salaries Payable	2,376	0	0	0	0	0	2,376
Payroll Related Liabilities	8,001	0	0	0	0	0	8,001
Unearned Revenue	2,676	0	0	0	0	0	2,676
Due to Other Funds	20,279	0	1,945	0	0	0	22,224
Total Liabilities	100,840	1,475	1,945	0	0	0	104,260
<u>FUND BALANCE</u>							
Nonspendable:							
Inventory	18,156	0	0	0	0	0	18,156
Restricted for:							
Food Service	832,304	0	0	0	0	0	832,304
Debt Service	0	0	0	1,058,180	0	0	1,058,180
Capital Projects	0	0	0	0	975,948	163,299	1,139,247
Community Services	0	129,934	0	0	0	0	129,934
Committed for:							
School Activities	0	0	152,314	0	0	0	152,314
Total Fund Balance	850,460	129,934	152,314	1,058,180	975,948	163,299	3,330,135
TOTAL LIABILITIES AND FUND BALANCE	\$ 951,300	\$ 131,409	\$ 154,259	\$ 1,058,180	\$ 975,948	\$ 163,299	\$ 3,434,395

TRI COUNTY AREA SCHOOLS
HOWARD CITY, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES

YEAR ENDED JUNE 30, 2023

	<u>SPECIAL REVENUE FUNDS</u>			<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>		<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
	<u>FOOD SERVICE FUND</u>	<u>CHILD CARE FUND</u>	<u>STUDENT/SCHOOL ACTIVITY FUND</u>	<u>2019 DEBT SERVICE FUND</u>	<u>CAPITAL PROJECTS FUND</u>	<u>BUILDING AND SITE SINKING FUND</u>	
<u>REVENUES</u>							
Local Sources	\$ 35,911	\$ 62,908	\$ 175,086	\$ 2,196,233	\$ 0	\$ 9,931	\$ 2,480,069
State Sources	23,683	4,106	0	0	0	0	27,789
Federal Sources	1,174,071	185,737	0	0	0	0	1,359,808
Total Revenues	1,233,665	252,751	175,086	2,196,233	0	9,931	3,867,666
<u>EXPENDITURES</u>							
Other Support Services	0	0	174,816	0	0	0	174,816
Food Service Activities	1,598,900	0	0	0	0	0	1,598,900
Community Services	0	200,410	0	0	0	0	200,410
Facilities Acquisition, Construction and Improvements	0	0	0	0	0	68,888	68,888
Debt Service	0	0	0	1,983,800	0	0	1,983,800
Total Expenditures	1,598,900	200,410	174,816	1,983,800	0	68,888	4,026,814
Excess (Deficiency) of Revenues Over Expenditures	(365,235)	52,341	270	212,433	0	(58,957)	(159,148)
<u>OTHER FINANCING SOURCES (USES)</u>							
Transfers In	0	0	0	0	799,936	0	799,936
Transfers Out	(65,000)	(7,900)	0	0	0	0	(72,900)
Total Other Financing Sources (Uses)	(65,000)	(7,900)	0	0	799,936	0	727,036
Net Change In Fund Balances	(430,235)	44,441	270	212,433	799,936	(58,957)	567,888
<u>FUND BALANCE - Beginning of Year, As Restated</u>	1,280,695	85,493	152,044	845,747	176,012	222,256	2,762,247
<u>FUND BALANCE - End of Year</u>	\$ 850,460	\$ 129,934	\$ 152,314	\$ 1,058,180	\$ 975,948	\$ 163,299	\$ 3,330,135

