



WEINLANDER FITZHUGH

HEMLOCK PUBLIC SCHOOLS
HEMLOCK, MICHIGAN
FINANCIAL STATEMENTS
JUNE 30, 2020

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WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

September 23, 2020

Board of Education
Hemlock Public Schools
Hemlock, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Hemlock Public Schools (School District), as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Hemlock Public Schools as of June 30, 2020 and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

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Board of Education
Hemlock Public Schools
September 23, 2020

Emphasis of Matter

As discussed in Note 16 to the financial statements, the School District implemented Governmental Accounting Standards Board Statement No. 84, Fiduciary Activities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining nonmajor fund financial statements and schedules of bonded indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements and schedules of bonded indebtedness are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the combining nonmajor fund financial statements and schedules of bonded indebtedness are fairly stated in all material respects in relation to the basic financial statements as a whole.



WEINLANDER FITZHUGH

Board of Education
Hemlock Public Schools
September 23, 2020

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2020, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Weinlander Fitzhugh

HEMLOCK PUBLIC SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2020

Our discussion and analysis of Hemlock Public Schools' (School District) financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2020.

Financial Highlights

The School District's net position decreased by \$173,068. Program revenues were \$3,448,933 or 23% of total revenues, and general revenues were \$11,666,721 or 77%.

The General Fund reported a positive fund balance of \$2,830,724. The Debt Service Fund reported a positive fund balance of \$363,600. The Energy Bond Capital Project Fund reported a positive fund balance of \$299,353.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, Debt Service Fund and Energy Bond Capital Project Fund with all other funds presented in one column as nonmajor funds. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- District-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Pension Schedules (Required Supplemental Information)

OPEB Schedules (Required Supplemental Information)

Other Supplemental Information

HEMLOCK PUBLIC SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2020

Reporting the District as a Whole

The Statement of Net Position and Statement of Activities

One of the most important questions asked about the School District's finances is: "Is the School District better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the School District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School District's net position as a way to measure the School District's financial position. The change in net position provides the reader a tool to assist in determining whether the School District's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, student enrollment growth and facility conditions in arriving at their conclusion regarding the overall health of the School District.

Reporting the District's Most Significant Funds

Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other sources of revenue.

Governmental Funds

The School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

HEMLOCK PUBLIC SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2020

District-wide Financial Analysis

The statement of net position provides the perspective of the School District as a whole. Exhibit A provides a summary of the School District's net position as of June 30, 2020 and 2019:

Exhibit A	Governmental Activities	
	2020	Nonrestated 2019
Assets		
Current and other assets	\$ 5,069,618	\$ 5,171,825
Capital assets - net of accumulated depreciation	11,902,364	12,501,276
Total assets	16,971,982	17,673,101
Deferred Outflows of Resources		
Deferred loss on refunding	47,927	71,892
Related to pensions and OPEB	7,051,844	7,100,811
Total deferred outflows of resources	7,099,771	7,172,703
Liabilities		
Current liabilities	2,933,471	3,041,630
Long-term liabilities	34,722,653	35,395,941
Total liabilities	37,656,124	38,437,571
Deferred Inflows of Resources		
Related to pensions and OPEB	3,669,301	3,764,715
Net Position		
Net investment in capital assets	935,102	535,899
Restricted	601,718	346,066
Unrestricted	(18,790,492)	(18,238,447)
Total net position	\$ (17,253,672)	\$ (17,356,482)

The analysis above focuses on net position (see Exhibit A). The School District's net position of governmental activities was \$(17,253,672) at June 30, 2020. Investment in property and equipment, net of related debt totaling \$935,102, compares the original costs less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt requirements and legislation that limit the School District's ability to use that net position for day-to-day operations.

The \$(18,790,492) in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

HEMLOCK PUBLIC SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2020

The School District implemented GASB Statement No. 68 in 2015. The effect of this Statement required the School District to report in the summary of net position, a liability of \$20,836,018 for 2020 and \$19,145,952 for 2019.

The School District implemented GASB Statement No. 75 in 2018. The effect of this Statement required the School District to report in the summary of net position, a liability of \$4,447,148 for 2020 and \$5,026,415 for 2019.

The results of this year's operations for the School District as a whole are reported in the statement of activities. Exhibit B provides a summary of the changes in net position for the years ended June 30, 2020 and 2019.

Exhibit B	Governmental Activities	
	2020	Nonrestated 2019
Revenues		
Program revenue:		
Charges for services	\$ 678,526	\$ 722,715
Grants and categoricals	2,770,407	2,386,674
General revenue:		
Property taxes	2,970,963	2,966,550
State aid	8,263,667	8,358,046
Other	432,091	62,578
Total revenues	15,115,654	14,496,563
Function/Program Expenses		
Instruction	7,821,421	7,050,963
Support services	4,700,130	4,464,136
Community services	226,264	264,634
Food services	397,605	393,280
Athletics	208,884	239,272
Student/school activities	351,947	641,816
Capital outlay	238,878	0
Interest on long-term debt	356,555	460,953
Depreciation	987,038	953,355
Total expenses	15,288,722	14,468,409
Change in Net Position	\$ (173,068)	\$ 28,154

As reported in the statement of activities, the cost of all of our governmental activities this year was \$15,288,722. Certain activities were partially funded from those who benefited from the programs, \$678,526, or by the other governments and organizations that subsidized certain programs with grants and categoricals of \$2,770,407. We paid for the remaining "public benefit" portion of our governmental activities with \$2,970,963 in taxes, \$8,263,667 in State aid and with our other revenues, such as interest and entitlements.

HEMLOCK PUBLIC SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2020

The School District's governmental activities had a decrease in net position of \$173,068. The major reason was the utilization of the energy bond capital projects fund and adjustments to the pension and OPEB balances. The decrease in net position differs from the change in fund balance and a reconciliation appears in the financial statements.

The School District's Funds

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

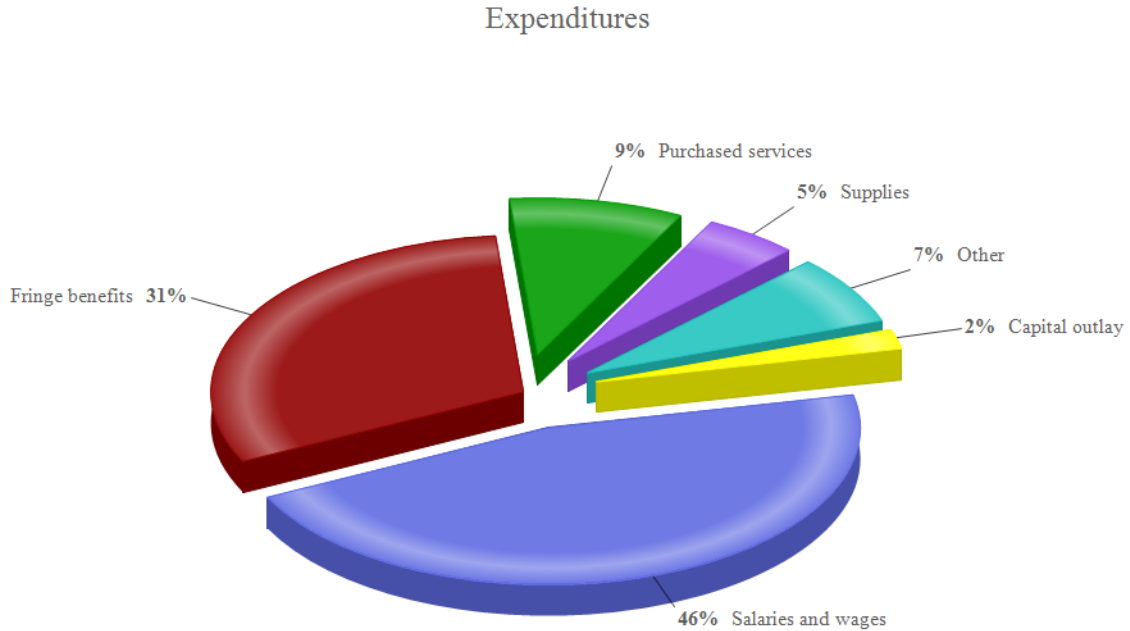
The School District's governmental funds reported a combined fund balance of \$3,818,230, which is below last year's total of \$4,078,058. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2020 and 2019.

	Fund Balance <u>6/30/2020</u>	Fund Balance <u>6/30/2019</u>	Increase (Decrease)
General	\$ 2,830,724	\$ 2,627,218	\$ 203,506
Debt Service	363,600	408,003	(44,403)
Energy Bond Capital Projects	299,353	704,417	(405,064)
Special Revenue	314,290	318,957	(4,667)
Capital Projects	10,263	19,463	(9,200)
	<u>\$ 3,818,230</u>	<u>\$ 4,078,058</u>	<u>\$ (259,828)</u>

- Our General Fund increase is due a foundation allowance increase from the State of Michigan and planned conservative spending.
- Our Debt Service Funds decreased mainly due to changes in taxable value and increased bond payments.
- Our Energy Bond Capital Projects fund decreased due to planned expenses.
- Our Special Revenue Funds decreased due to the impact of COVID-19 on our student activity accounts and our food service sector.
- Our Capital Projects Fund decreased due to continued planned expenses.

HEMLOCK PUBLIC SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2020

As the graph below illustrates, the largest portions of General Fund expenditures are for salaries and fringe benefits. The School District by nature is a labor intensive organization.



Expenditures by object	2020	2019
Salaries and wages	\$ 5,487,748	\$ 5,325,148
Fringe benefits	3,775,626	3,490,331
Purchased services	1,146,653	1,128,234
Supplies	665,282	739,988
Capital outlay	200,766	34,144
Other	907,539	862,347
Total	<u>\$ 12,183,614</u>	<u>\$ 11,580,192</u>

Expenditures have increased by \$603,422 from the prior year mainly due to planned salary increases and associated fringe benefits from a renegotiated HFT contract.

HEMLOCK PUBLIC SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2020

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenues were increased by \$577,105 due to increased State Aid and local donations.
- Budgeted expenditures were increased by \$235,182 mainly due to increased wages.
- Actual revenues came in \$446,768 below along with expenditures \$555,028 above in comparison to the final operating budget.

Capital Assets

At June 30, 2020, the School District had \$11,902,364 invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net decrease (including additions and disposals) of 5% from last year.

	2020	2019
Land	\$ 688,500	\$ 688,500
Construction in process	0	104,001
Buildings and improvements	31,304,059	30,846,950
Buses and other vehicles	796,403	803,903
Furniture and equipment	1,669,322	1,634,304
Total capital assets	34,458,284	34,077,658
Less accumulated depreciation	22,555,920	21,576,382
Net capital assets	\$ 11,902,364	\$ 12,501,276

This year's additions of \$492,127 were for a PA system, wrestling mat, trailer, STEM Center building, and energy saving additions including a building automation system, advanced metering infrastructure, and gym destratification fans.

We present more detailed information about our capital assets in the notes to the financial statements.

HEMLOCK PUBLIC SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2020

Debt

At the end of this year, the School District had \$10,595,000 in bonds outstanding versus \$12,180,000 in the previous year.

	<u>2020</u>	<u>2019</u>
2013 Improvement Bonds	\$ 6,585,000	\$ 6,765,000
2015 Refunding Bonds	2,160,000	3,400,000
2017 Improvement Bonds	195,000	290,000
2018 Energy Bond	1,655,000	1,725,000
	<u>\$ 10,595,000</u>	<u>\$ 12,180,000</u>

Factors Expected to have an Effect on Future Operations

Our elected Board and administration consider many factors when setting the School District's 2021 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2021 fiscal year budget was adopted in June 2020, based on an estimate of students that will be enrolled in September 2020. Under state law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2020 - 2021 school year, we anticipate that the fall student count will remain consistent with estimates used in creating the 2021 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates that funds are sufficient to fund the appropriation until 2020 - 2021.

Requests for Information

This financial report is designed to provide a general overview of the School District's finances for all those with an interest in the School District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the Superintendent
Hemlock Public Schools
200 Wilson Street
P.O. Box 260
Hemlock, MI 48626

HEMLOCK PUBLIC SCHOOLS
Statement of Net Position
June 30, 2020

	Governmental Activities
Cash and cash equivalents	\$ 3,050,587
Receivables - net:	
Accounts receivable	6,545
Due from other governmental units	1,985,842
Inventories	5,544
Prepaid expenses	21,100
Capital assets less accumulated depreciation \$22,555,920	11,902,364
Total assets	16,971,982
 <u>Deferred Outflows of Resources</u>	
Deferred loss on refunding	47,927
Related to pensions	5,747,161
Related to OPEB	1,304,683
Total deferred outflows of resources	7,099,771
 <u>Liabilities</u>	
Accounts payable	30,049
Unearned revenue	181,146
Accrued payroll and other liabilities	1,040,193
Accrued interest payable	71,498
Long-term liabilities:	
Due within one year	1,610,585
Due in more than one year	9,439,487
Net pension liability	20,836,018
Net OPEB liability	4,447,148
Total liabilities	37,656,124
 <u>Deferred Inflows of Resources</u>	
Related to pensions	1,787,127
Related to OPEB	1,882,174
Total deferred inflows of resources	3,669,301
 <u>Net Position</u>	
Net investment in capital assets	935,102
Restricted for debt service	292,102
Restricted for capital projects	309,616
Unrestricted	(18,790,492)
Total net position	\$ (17,253,672)

See accompanying notes to financial statements.

HEMLOCK PUBLIC SCHOOLS
Statement of Activities
For the Year Ended June 30, 2020

	Program Revenues			Governmental Activities
Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Position	
<u>Functions/Programs</u>				
Primary government -				
Governmental activities:				
Instruction	\$ 7,821,421	\$ 258,574	\$ 2,441,970	\$ (5,120,877)
Support services	4,700,130	0	22,031	(4,678,099)
Community services	226,264	199,172	0	(27,092)
Food services	397,605	117,899	274,026	(5,680)
Athletics	208,884	102,881	32,380	(73,623)
Student/school activities	351,947	0	0	(351,947)
Capital outlay	238,878	0	0	(238,878)
Interest on long-term debt	356,555	0	0	(356,555)
Depreciation	987,038	0	0	(987,038)
	<u>\$ 15,288,722</u>	<u>\$ 678,526</u>	<u>\$ 2,770,407</u>	<u>(11,839,789)</u>
Total governmental activities				
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,388,857
Property taxes, levied for debt services				1,582,106
State aid				8,263,667
Interest and investment earnings				19,556
Other				412,535
				<u>11,666,721</u>
				(173,068)
Change in net position				(173,068)
Net position - beginning of year, restated				<u>(17,080,604)</u>
Net position - end of year				<u>\$ (17,253,672)</u>

See accompanying notes to financial statements.

HEMLOCK PUBLIC SCHOOLS
Governmental Funds
Balance Sheet
June 30, 2020

	General	Debt Service	Energy Bond Capital Project	Other Nonmajor Governmental Funds	Total
<u>Assets</u>					
Cash and cash equivalents	\$ 2,083,022	\$ 364,850	\$ 299,353	\$ 303,362	\$ 3,050,587
Receivables - net:					
Accounts receivable	6,545	0	0	0	6,545
Due from other funds	2,045	0	0	26,824	28,869
Due from other governmental units	1,985,842	0	0	0	1,985,842
Inventories	2,631	0	0	2,913	5,544
Prepaid expenditures	21,100	0	0	0	21,100
Total assets	\$ 4,101,185	\$ 364,850	\$ 299,353	\$ 333,099	\$ 5,098,487
<u>Liabilities and Fund Balance</u>					
<u>Liabilities</u>					
Accounts payable	\$ 28,557	\$ 0	\$ 0	\$ 1,492	\$ 30,049
Due to other funds	26,824	1,250	0	795	28,869
Unearned revenue	180,665	0	0	481	181,146
Accrued payroll and other liabilities	1,034,415	0	0	5,778	1,040,193
Total liabilities	1,270,461	1,250	0	8,546	1,280,257
<u>Fund Balance</u>					
Nonspendable - inventory	2,631	0	0	2,913	5,544
Nonspendable - prepaid	21,100	0	0	0	21,100
Restricted for debt service	0	363,600	0	0	363,600
Restricted for capital projects	0	0	299,353	10,263	309,616
Restricted for food service	0	0	0	42,668	42,668
Committed for student/school activities	0	0	0	268,709	268,709
Unassigned	2,806,993	0	0	0	2,806,993
Total fund balance	2,830,724	363,600	299,353	324,553	3,818,230
Total liabilities and fund balance	\$ 4,101,185	\$ 364,850	\$ 299,353	\$ 333,099	\$ 5,098,487

See accompanying notes to financial statements.

HEMLOCK PUBLIC SCHOOLS
 Reconciliation of Balance Sheet of Governmental Funds
 to the Statement of Net Position
June 30, 2020

Total fund balance - governmental funds	\$ 3,818,230
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	
Cost of the capital assets	34,458,284
Accumulated depreciation	(22,555,920)
Deferred outflows used in governmental activities are not financial resources and therefore are not reported in governmental funds:	
Deferred loss on refunding	47,927
Related to pensions	5,747,161
Related to OPEB	1,304,683
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(10,595,000)
Compensated absences	(34,883)
Capital lease obligation	(15,160)
Bond premium, net of amortization	(405,029)
Net pension liability	(20,836,018)
Net OPEB liability	(4,447,148)
Accrued interest payable is included as a liability in governmental activities	(71,498)
Deferred inflows used in governmental activities are not recognized as current resources and therefore are not reported in governmental funds:	
Related to pensions	(1,787,127)
Related to OPEB	(1,882,174)
Total net position - governmental activities	<u>\$ (17,253,672)</u>

See accompanying notes to financial statements.

HEMLOCK PUBLIC SCHOOLS
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2020

	General	Debt Service	Energy Bond Capital Project	Other Nonmajor Governmental Funds	Total
Local sources	\$ 2,146,522	\$ 1,586,627	\$ 1,837	\$ 471,619	\$ 4,206,605
State sources	9,518,050	312,693	0	17,285	9,848,028
Federal sources	492,945	0	0	256,741	749,686
Interdistrict and other sources	232,602	0	0	0	232,602
Total revenues	12,390,119	1,899,320	1,837	745,645	15,036,921
Expenditures					
Current:					
Instruction	7,073,367	0	0	0	7,073,367
Support services	4,417,392	0	0	2,308	4,419,700
Community services	226,264	0	0	0	226,264
Athletics	208,884	0	0	0	208,884
Capital outlay	187,707	0	406,901	10,651	605,259
Food services	0	0	0	397,605	397,605
Student/school activities	0	0	0	351,947	351,947
Principal	70,000	1,515,000	0	0	1,585,000
Interest and other	0	428,723	0	0	428,723
Total expenditures	12,183,614	1,943,723	406,901	762,511	15,296,749
Excess (deficiency) of revenues over expenditures	206,505	(44,403)	(405,064)	(16,866)	(259,828)
Other Financing Sources (Uses)					
Operating transfers in	0	0	0	2,999	2,999
Operating transfers out	(2,999)	0	0	0	(2,999)
Total other financing sources (uses)	(2,999)	0	0	2,999	0
Net change in fund balance	203,506	(44,403)	(405,064)	(13,867)	(259,828)
Fund balance - beginning of year, restated	2,627,218	408,003	704,417	338,420	4,078,058
Fund balance - end of year	\$ 2,830,724	\$ 363,600	\$ 299,353	\$ 324,553	\$ 3,818,230

See accompanying notes to financial statements.

HEMLOCK PUBLIC SCHOOLS
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2020

Net change in fund balance - total governmental funds	\$ (259,828)
<p>Amounts reported for governmental activities in the statements of activities are different because:</p>	
<p style="padding-left: 20px;">Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation</p>	
Depreciation expense	(987,038)
Capital outlay	388,126
<p>Long-term liabilities are not due and payable in the current period and are not reported in the funds:</p>	
Capital lease payments	6,480
<p>The issuance of long-term debt (e.g. bonds) provide current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, where as these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items as follows:</p>	
Payments on long-term debt	1,585,000
Amortization of bond premium	135,017
Amortization on loss on refunding	(23,965)
<p>Decreases compensated absences are reported as an addition in expenditures when financial resources are used in the governmental fund in accordance with GASB Interpretation No. 6</p>	
	37,590
<p>Decreases in accrued interest are reported as an addition to expenses on the Statement of Activities</p>	
	9,902
<p>Some revenue and expenses reported in the statement of activities are not recognized as or do not require the use of current financial resources and, therefore, are not reported in the governmental funds</p>	
Pension related items	(1,418,244)
OPEB related items	353,892
Change in net position of governmental activities	\$ (173,068)

See accompanying notes to financial statements.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Hemlock Public Schools (School District) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

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

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Amounts reported as program revenue include; (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

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

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The School District reports the following major governmental funds:

General Fund - The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Debt Service Fund - The Debt Service Fund is used to account for the recording of transactions relative to the bonds of the School District.

Energy Bond Capital Project Fund - The Energy Bond Capital Project Fund is used to account for the recording of transactions relative to energy efficient improvements within the School District.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Position or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and any asset susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	25-50 years
Buses and other vehicles	8 years
Furniture and equipment	5-20 years

Compensated Absences - The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund Equity - The fund balance classifications are reported on the extent to which a government is bound to observe constraints imposed on the use of the resources in governmental funds. The fund balances are classified as nonspendable, restricted, committed, assigned and unassigned.

Nonspendable fund balance represents amounts that are not in a spendable form. The School District's nonspendable fund balance represents inventories and prepaid expenditures. In the fund financial statements, governmental funds report restrictions on fund balances for amounts that are legally restricted by outside parties for a specific purpose. Committed fund balance represents funds formally set aside by the School District for a particular purpose. The use of committed funds would be approved by the Board of Education through the budget process or official board action.

Assigned fund balance would represent tentative management plans that are subject to change which at the present time the School District does not have any assigned fund balance. The School District's intent would be to spend uncommitted/unassigned funds prior to the use of committed funds. When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

Deferred Outflows and Inflows of Resources

Deferred Outflows - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. They are the deferred charge on refunding and pension and other postemployment benefits contributions reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. For district-wide financial statements, the School District reports deferred outflows of resources related to pensions and other postemployment benefits. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension and other postemployment benefits liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. The School District also reported deferred outflows of resources for pension and other postemployment benefits contributions made after the measurement date. This amount will reduce the net pension liability in the following year.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows - In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. For district-wide financial statements, the School District reports deferred inflows of resources related to pensions and other postemployment benefits. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension and other postemployment benefits expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. Deferred inflows of resources also includes revenue received relating to Section 147c state aid deferred to offset the deferred outflows related to Section 147c pension contributions subsequent to the measurement period.

Use of Estimates - The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles 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.

Property taxes - For the taxpayers of the School District, properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1. The final collection date is February 28, after which uncollected taxes are added to the County delinquent tax rolls.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State Aid - For the fiscal year ended June 30, 2020, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide 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, 2020, the foundation allowance was based on the average pupil membership counts taken in February of 2019 and September of 2019.

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 (currently the fiscal year) and is funded through payments from October 2019 - August 2020. The local revenue is recognized as outlined in Note 1. Amounts receivable from the State of Michigan at June 30, 2020 relating to state aid is \$1,547,876.

The School 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 categorical 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 deferred revenue. Other categorical funding is recognized when the appropriation is received.

Events Occurring After Reporting Date

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying Independent Auditor's Report, which is the date the financial statements were available to be issued.

NOTE 2 - BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of school districts prior to the expenditure of monies in a fiscal year.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 2 - BUDGETS (CONTINUED)

Hemlock Public Schools follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board of Education a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board of Education throughout the year. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end and therefore cancels all encumbrances. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the General Fund are noted in the required supplementary information section.

NOTE 3 - CASH AND INVESTMENTS

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Primary Government</u>
Cash and cash equivalents	<u>\$ 3,050,587</u>

As of June 30, 2020 the School District had deposits and investments subject to the following risk:

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2020, \$2,460,194 of the School District's bank balance of \$3,611,117 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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

Concentration of credit risk. The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School 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 by credit quality.

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

Fair value measurement. The School 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 School District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

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

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.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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

NOTE 4 - CAPITAL ASSETS

A summary of changes in governmental capital assets follows:

	Balance June 30, 2019	Additions	Disposals and Adjustments	Balance June 30, 2020
Assets not being depreciated:				
Land	\$ 688,500	\$ 0	\$ 0	\$ 688,500
Construction in process	104,001	0	(104,001)	0
Subtotal	<u>792,501</u>	<u>0</u>	<u>(104,001)</u>	<u>688,500</u>
Capital assets being depreciated:				
Buildings and improvements	30,846,950	457,109	0	31,304,059
Buses and other vehicles	803,903	0	(7,500)	796,403
Furniture and equipment	1,634,304	35,018	0	1,669,322
Subtotal	<u>33,285,157</u>	<u>492,127</u>	<u>(7,500)</u>	<u>33,769,784</u>
Accumulated depreciation:				
Buildings and improvements	19,729,681	860,040	0	20,589,721
Buses and other vehicles	554,531	65,648	(7,500)	612,679
Furniture and equipment	1,292,170	61,350	0	1,353,520
Subtotal	<u>21,576,382</u>	<u>987,038</u>	<u>(7,500)</u>	<u>22,555,920</u>
Net capital assets being depreciated	<u>11,708,775</u>	<u>(494,911)</u>	<u>0</u>	<u>11,213,864</u>
Net capital assets	<u>\$ 12,501,276</u>	<u>\$ (494,911)</u>	<u>\$ (104,001)</u>	<u>\$ 11,902,364</u>

Depreciation expense for fiscal year ended June 30, 2020 was \$987,038. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A summary of interfund receivable and payable balances at June 30, 2020 are as follows:

		Payables			
		General	Debt Service	Student/ School Activities	Total
Receivables	General	\$ 0	\$ 1,250	\$ 795	\$ 2,045
	Food Service	26,824	0	0	26,824
		\$ 26,824	\$ 1,250	\$ 795	\$ 28,869

A summary of interfund transfers made during the year ended June 30, 2020 are as follows:

		<u>Transfers Out</u>
		General
Transfers In	Food Service	\$ 2,999

These interfund receivable and payable balances resulted 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.

Transfers are used to provide funds for school breakfast.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2020 consist of accounts (fees) and intergovernmental grants.

A summary of the intergovernmental receivables (due from other governmental units) follows:

State aid and grants	\$ 1,547,876
Federal grants	107,271
ISD	303,152
Other governments	27,543
	\$ 1,985,842

NOTE 7 - UNEARNED REVENUE

Governmental funds report unearned revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also reflect unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, grant and categorical aid payments received prior to meeting all eligibility requirements amounted to \$181,146.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 8 - SHORT-TERM DEBT ACTIVITY

The School District issues state aid anticipation notes in advance of State of Michigan state aid payments, depositing the proceeds in its General Fund. These notes are necessary because the School District's cash flow obligation to operating expenses precede the collection of state aid. At June 30, 2020, the School District did not have an outstanding state aid anticipation note payable. Activity for the year ended June 30, 2020 is as follows:

Beginning Balance	Issued	Redeemed	Ending Balance
\$ 169,320	\$ 0	\$ 169,320	\$ 0

NOTE 9 - LONG-TERM OBLIGATIONS

The following is a summary of governmental long-term obligations for the School District for the year ended June 30, 2020:

	Balance July 1, 2019	Additions	Retirements and Payments	Balance June 30, 2020	Amount Due Within One Year
General obligation bonds	\$ 12,720,046	\$ 0	\$ 1,720,017	\$ 11,000,029	\$ 1,605,000
Compensated absences	72,473	0	37,590	34,883	0
Capital lease obligations - See Note 14	21,640	0	6,480	15,160	5,585
	<u>\$ 12,814,159</u>	<u>\$ 0</u>	<u>\$ 1,764,087</u>	<u>\$ 11,050,072</u>	<u>\$ 1,610,585</u>

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 9 - LONG-TERM OBLIGATIONS (CONTINUED)

Long-term obligations at June 30, 2020 is comprised of the following issues:

General obligation bonds:

\$7,500,000, 2013 School Building and Site bonds due in annual installments of \$125,000 to \$1,995,000 through May 1, 2025; interest at 2.00% to 4.00%	\$ 6,585,000
\$7,945,000, 2015 refunding bonds due in annual installments of \$875,000 to \$1,285,000 through May 1, 2022; interest at 4.00%	2,160,000
\$465,000, 2017 School Building and Site bonds due in annual installments of \$85,000 to \$100,000 through November 1, 2022; interest at 1.600% to 2.350%	195,000
\$1,725,000, 2018 Improvement bonds due in annual installments of \$70,000 to \$150,000 through November 1, 2039; interest at 3.5%	1,655,000
Bond premium	<u>405,029</u>
Total bonded debt	<u>\$ 11,000,029</u>

Compensated absences include unused sick pay and vacation pay. Unused sick pay is calculated using the daily rate for eligible employees times the number of unused days (maximum 50 days). At June 30, 2020, the amount of \$34,883 has been recorded in the district-wide financial statements.

The annual requirements to amortize bonds outstanding as of June 30, 2020, including interest payments are as follows:

<u>Year Ended June 30</u>	General Obligation Bonds		
	Principal	Interest	Total
2021	\$ 1,605,000	\$ 428,832	\$ 2,033,832
2022	1,670,000	368,513	2,038,513
2023	1,875,000	303,562	2,178,562
2024	1,965,000	210,488	2,175,488
2025	2,050,000	132,138	2,182,138
2026 - 2030	350,000	229,315	579,315
2031 - 2035	525,000	157,563	682,563
2036 - 2040	555,000	50,976	605,976
	\$ 10,595,000	\$ 1,881,387	\$ 12,476,387

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 10 - RISK MANAGEMENT

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

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

The District has an agreement with AmeraPlan, in which the District maintains a partially self-funded plan for employee benefits covering dental and vision.

NOTE 11 - DEFINED BENEFIT PENSION 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 Comprehensive Annual Financial Report that can be obtained at www.michigan.gov/orsschools.

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

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

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

Benefits Provided - Overall

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

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

Benefits Provided - Pension

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

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 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.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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, 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.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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 worked 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 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.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

Benefits Provided – Other postemployment benefit (OPEB)

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

Retiree Healthcare Reform of 2012

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

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

Regular Retirement (no reduction factor for age)

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

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

Member Contributions

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

Employer Contributions

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

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

Pension and OPEB contributions made in the fiscal year ending September 30, 2019 were determined as of the September 30, 2016 actuarial valuations. The pension and OPEB benefits, the unfunded (overfunded) actuarial accrued liabilities as of September 30, 2016, are amortized over a 20-year period beginning October 1, 2018 and ending September 30, 2038.

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

	Pension	Other postemployment benefit
October 1, 2018 - September 30, 2019	13.39% - 19.59%	7.57% - 7.93%
October 1, 2019 - September 30, 2020	13.39% - 19.59%	7.57% - 8.09%

The School District's pension contributions for the year ended June 30, 2020 were equal to the required contribution total. Total pension contributions were approximately \$1,783,000. Of the total pension contributions approximately \$1,739,000 was contributed to fund the Defined Benefit Plan and approximately \$44,000 was contributed to fund the Defined Contribution Plan.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

The School District's OPEB contributions for the year ended June 30, 2020 were equal to the required contribution total. Total OPEB contributions were approximately \$451,000. Of the total OPEB contributions approximately \$446,000 was contributed to fund the Defined Benefit Plan and approximately \$5,000 was contributed to fund the Defined Contribution Plan.

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

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

Pension Liabilities

The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2018 and rolled-forward using generally accepted actuarial procedures. The School 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.

MPSERS (Plan) Non-University Employers:	September 30, 2019	September 30, 2018
Total Pension Liability	\$ 83,442,507,212	\$ 79,863,694,444
Plan Fiduciary Net Position	\$ 50,325,869,388	\$ 49,801,889,205
Net Pension Liability	\$ 33,116,637,824	\$ 30,061,805,239
Proportionate share	0.06292 %	0.06369 %
Net Pension liability for the School District	\$ 20,836,018	\$ 19,145,952

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

For the year ended June 30, 2020, the School District recognized pension expense of approximately \$2,393,000.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

At June 30, 2020, the School 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	\$ 93,394	\$ (86,884)
Net difference between projected and actual earnings on pension plan investments	0	(667,759)
Changes in assumptions	4,079,707	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	79,045	(349,760)
Unearned revenue related to pension portion of section 147c	0	(682,724)
School District's contributions subsequent to the measurement date	<u>1,495,015</u>	<u>0</u>
Total	<u>\$ 5,747,161</u>	<u>\$ (1,787,127)</u>

\$1,495,015, reported as deferred outflows of resources related to pensions resulting from School District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

Year Ended June 30	<u>Amount</u>
2021	\$ 1,303,168
2022	966,333
2023	624,646
2024	253,596
	<u>\$ 3,147,743</u>

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

OPEB Liabilities

The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2018 and rolled-forward using generally accepted actuarial procedures. The School 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.

MPSERS (Plan) Non-University Employers:	September 30, 2019	September 30, 2018
Total OPEB Liability	\$ 13,925,860,688	\$ 13,932,170,264
Plan Fiduciary Net Position	\$ 6,748,112,668	\$ 5,983,218,473
Net OPEB Liability	\$ 7,177,748,020	\$ 7,948,951,791
Proportionate share	0.06196 %	0.06323 %
Net OPEB liability for the School District	\$ 4,447,148	\$ 5,026,415

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

For the year ended June 30, 2020, the School District recognized OPEB expense of approximately \$(33,632).

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

At June 30, 2020, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference between expected and actual experience	\$ 0	\$ (1,631,784)
Net difference between projected and actual plan investments	0	(77,338)
Changes in assumption	963,607	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,028	(173,052)
School District's contributions subsequent to the measurement date	340,048	0
Total	\$ 1,304,683	\$ (1,882,174)

\$340,048, reported as deferred outflows of resources related to OPEB resulting from School 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:

Year Ended June 30	Amount
2021	\$ (247,317)
2022	(247,317)
2023	(208,904)
2024	(142,453)
2025	(71,548)
	\$ (917,539)

Actuarial Assumptions

Investment rate of return for Pension - 6.80% a year, compounded annually net of investment and administrative expenses for the MIP, Basic and Pension Plus groups and 6.00% a year, compounded annually net of investment and administrative expenses for the Pension Plus 2 Plan.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

Investment rate of return for OPEB - 6.95% a year, compounded annually net of investment and administrative expenses.

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

Inflation - 3.0%

Mortality assumptions -

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

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

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

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2018. Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the determination of the total pension and OPEB liability beginning with the September 30, 2017 valuation.

The long-term expected rate of return on pension and other postemployment benefit plan investments - The rate was 6.80% (MIP, Basic, and Pension Plus Plan) and 6.00% for the Pension Plus 2 Plan, and the other postemployment benefit rate was 6.95% net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Healthcare cost trend rate for other postemployment benefit – 7.5% for year one and graded to 3.5% to year twelve.

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

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

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

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

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

Investment Category	Target Allocation*	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.5%
Private Equity Pools	18.0%	8.6%
International Equity Pools	16.0%	7.3%
Fixed Income Pools	10.5%	1.2%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.4%
Short Term Investment Pools	2.0%	0.8%
Total	100.0%	

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

Rate of return - For fiscal year ended September 30, 2019, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was 5.14% and 5.37% respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amount actually invested.

Pension discount rate - A single discount rate of 6.80% was used to measure the total pension liability (6.00% for the Pension Plus 2 Plan). This discount rate was based on the long-term rate of return on pension plan investments of 6.80% (6.00% for the Pension Plus 2 Plan). The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

OPEB Discount rate - A single discount rate of 6.95% 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 6.95%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that school districts contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net pension liability to changes in the discount rate - The following presents the School District's proportionate share of the net pension liability calculated using a single discount rate of 6.80% (6.00% for the Pension Plus 2 Plan), as well as what the School 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
School District's proportionate share of the net pension liability	<u>\$27,088,157</u>	<u>\$20,836,018</u>	<u>\$15,652,780</u>

Sensitivity of the net OPEB liability to changes in the discount rate - The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 6.95%, as well as what the Reporting Unit's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Other postemployment benefit		
	1% Decrease	Discount Rate	1% Increase
School District's proportionate share of the net other postemployment benefit liability	<u>\$5,455,096</u>	<u>\$4,447,148</u>	<u>\$3,600,752</u>

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

Sensitivity to the net OPEB liability to changes in the healthcare cost trend rates - The following presents the School District's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate of 7.5% (decreasing to 3.5%), as well as what the School 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:

	Other postemployment benefit		
	1% Decrease	Healthcare cost trend rates	1% Increase
School District's proportionate share of the net OPEB liability	<u>\$3,564,869</u>	<u>\$4,447,148</u>	<u>\$5,454,976</u>

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 2019 Comprehensive Annual Financial Report.

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

NOTE 12 - GRANTS

The School District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the School District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. Based on prior experience, the School District administration believes such disallowance, if any, would be immaterial.

NOTE 13 - ECONOMIC DEPENDENCY

The School District received approximately 77% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 14 - LEASE

The School District is in an agreement to lease a copier through July 2021. The School District entered into a second agreement to lease copiers during the year that is effective through September 2024. The lease expense for the year ended June 30, 2020 was \$6,480.

The annual payments are as follows:

2021	\$	5,585
2022		4,005
2023		3,780
2024		1,840
		<u>15,210</u>
	\$	<u>15,210</u>

NOTE 15 - PARTNERSHIP

The School District, Hemlock Semiconductor and Dow Corning Health Care Materials Site are engaged in a partnership for the purpose of developing various educational activities in the school, workplace and community that offers each child an opportunity to attain excellence in his or her chosen educational endeavors. Such activities are categorized as follows:

1. Student oriented activities
2. Shared staff/administration development programs
3. Support of special projects
4. Acquisition of instruction materials, supplies and equipment

A task force represented by members of all the partners determines the direction of the Partnership and its goals. The cash activity of the Partnership is summarized as follows:

Cash balance, beginning of the year	\$	23,232
Revenue		
Contributions		25,793
Expenses		
Materials and equipment	\$	8,880
Educational activities		4,180
Other		1,260
Total expenses		<u>14,320</u>
Cash balance, end of the year	\$	<u>34,705</u>

NOTE 16 - NEW ACCOUNTING STANDARDS

For the year ended June 30, 2020, the School District implemented the following new pronouncement:

GASB Statement No. 84, *Fiduciary Activities*.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 16 - NEW ACCOUNTING STANDARDS (CONTINUED)

Summary:

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

The restatement of the beginning of the year fund balances and net position follows:

	Fund balances	
	Student/school activity fund	Total governmental funds
Fund balances as of July 1, 2019, as previously stated	\$ 0	\$ 3,802,180
Adoption of GASB Statement 84	275,878	275,878
Fund balance as of July 1, 2019, as restated	\$ 275,878	\$ 4,078,058

	Net position	
	Governmental activities	
Net position as of July 1, 2019, as previously stated	\$	(17,356,482)
Adoption of GASB Statement 84		275,878
Net position as of July 1, 2019, as restated	\$	(17,080,604)

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 17 - TAX ABATEMENTS

Effective for the year ended June 30, 2017, the School District is required to disclose significant tax abatements as required by GASB Statement 77 (Tax abatements).

The School District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions, Brownfield Redevelopment Agreements, and Payments in Lieu of Taxes (PILOT) granted by cities, villages and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield Redevelopment Agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties; PILOT programs apply to multiple unit housing for citizens of low income and the elderly.

The property taxes abated for all funds by municipality under these programs are as follows:

Municipality	Taxes Abated
Thomas Township	\$ <u>1,127,000</u>

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

NOTE 18 - UPCOMING ACCOUNTING PRONOUNCEMENT

Governmental Accounting Standards Board (GASB) Statement No. 87, Leases, was issued by the GASB in June 2017 and will be effective for the School District's 2022 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

NOTE 19 - SUBSEQUENT EVENT

On March 11, 2020, the World Health Organization declared the coronavirus (COVID-19) a pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which are likely to negatively impact the School District. While the disruption is currently expected to be temporary, there is considerable uncertainty regarding the duration. The overall financial impact of COVID-19 cannot be reasonably estimated at this time.

HEMLOCK PUBLIC SCHOOLS
 Required Supplemental Information
 Budgetary Comparison Schedule - General Fund
 For the Year Ended June 30, 2020

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
Local sources	\$ 2,001,536	\$ 2,241,475	\$ 2,146,522	\$ (94,953)
State sources	9,554,366	9,855,773	9,518,050	(337,723)
Federal sources	502,388	538,440	492,945	(45,495)
Interdistrict and other sources	201,492	201,199	232,602	31,403
Total revenues	<u>12,259,782</u>	<u>12,836,887</u>	<u>12,390,119</u>	<u>(446,768)</u>
<u>Expenditures</u>				
Instruction:				
Basic programs	5,602,064	5,547,011	5,429,056	117,955
Added needs	1,630,399	1,763,945	1,644,311	119,634
Support services:				
Pupil	625,639	654,162	628,855	25,307
Instructional staff	290,372	286,527	267,313	19,214
General administrative	422,952	429,133	412,372	16,761
School administrative	760,937	779,131	725,455	53,676
Business services	257,452	242,097	230,112	11,985
Operations and maintenance	1,364,779	1,384,624	1,222,797	161,827
Transportation	506,322	481,016	469,331	11,685
Information services	369,505	408,779	353,938	54,841
Other	39,442	40,645	107,219	(66,574)
Community services	322,578	258,433	226,264	32,169
Athletics	248,519	205,999	208,884	(2,885)
Capital outlay	62,500	257,140	187,707	69,433
Debt service	0	0	70,000	(70,000)
Total expenditures	<u>12,503,460</u>	<u>12,738,642</u>	<u>12,183,614</u>	<u>555,028</u>
Excess (deficiency) of revenues over expenditures	<u>(243,678)</u>	<u>98,245</u>	<u>206,505</u>	<u>108,260</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers out	<u>(47,166)</u>	<u>(154,302)</u>	<u>(2,999)</u>	<u>151,303</u>
Total other financing sources (uses)	<u>(47,166)</u>	<u>(154,302)</u>	<u>(2,999)</u>	<u>151,303</u>
Net change in fund balance	(290,844)	(56,057)	203,506	259,563
Fund balance - beginning of year	<u>2,627,218</u>	<u>2,627,218</u>	<u>2,627,218</u>	<u>0</u>
Fund balance - end of year	<u>\$ 2,336,374</u>	<u>\$ 2,571,161</u>	<u>\$ 2,830,724</u>	<u>\$ 259,563</u>

HEMLOCK PUBLIC SCHOOLS
Required Supplemental Information
Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.06292 %	0.06369 %	0.06420 %	0.06483 %	0.06238 %	0.06479 %
Reporting unit's proportionate share of net pension liability	\$20,836,018	\$19,145,952	\$16,636,568	\$16,175,073	\$15,236,344	\$14,270,093
Reporting unit's covered-employee payroll*	\$ 5,417,583	\$ 5,383,351	\$ 5,293,137	\$ 5,541,650	\$ 5,107,037	\$ 5,670,819
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	26.00105 %	28.11744 %	31.81628 %	34.26043 %	33.51878 %	39.73919 %
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	60.31000 %	62.36000 %	64.21000 %	63.27000 %	62.92000 %	66.15000 %

* The employer's covered payroll is defined by GASB 82, *Pension Issues - an amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 68 in 2015, the 10 year history will be provided prospectively until a full 10 year history is shown.

HEMLOCK PUBLIC SCHOOLS
Required Supplemental Information
Schedule of the Reporting Unit's Pension Contributions
Michigan Public School Employees Retirement Plan
Last 10 Reporting Unit Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,739,315	\$ 1,746,068	\$ 1,737,697	\$ 1,501,025	\$ 1,561,373	\$ 1,346,626
Contributions in relation to statutorily required contributions*	<u>1,739,315</u>	<u>1,746,068</u>	<u>1,737,697</u>	<u>1,501,025</u>	<u>1,561,373</u>	<u>1,346,626</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Reporting unit's covered-employee payroll**	\$ 5,570,164	\$ 5,377,202	\$ 5,340,479	\$ 5,395,962	\$ 5,214,001	\$ 5,430,881
Contributions as a percentage of covered-employee payroll	31.23 %	32.47 %	32.54 %	27.82 %	29.95 %	24.80 %

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

** The employer's covered payroll is defined by GASB 82, *Pension Issues - an amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based. For non-university employers, covered payroll for both pensions and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 68 in 2015, the 10 year history will be provided prospectively until a full 10 year history is shown.

HEMLOCK PUBLIC SCHOOLS
Required Supplemental Information
Schedule of the Reporting Unit's Proportionate Share of the Net OPEB Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Reporting unit's proportion of net OPEB liability (%)	0.06196 %	0.06323 %	0.06407 %
Reporting unit's proportionate share of net OPEB liability	\$ 4,447,148	\$ 5,026,415	\$ 5,673,381
Reporting unit's covered-employee payroll*	\$ 5,417,583	\$ 5,383,351	\$ 5,293,137
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	121.82151 %	107.10120 %	93.29775 %
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)	48.46000 %	42.95000 %	36.39000 %

* The employer's covered payroll is defined by GASB 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 75 in 2018, the 10 year history will be provided prospectively until a full 10 year history is shown.

HEMLOCK PUBLIC SCHOOLS
Required Supplemental Information
Schedule of the Reporting Unit's OPEB Contributions
Michigan Public School Employees Retirement Plan
Last 10 Reporting Unit Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contributions	\$ 446,477	\$ 420,512	\$ 1,737,697
Contributions in relation to statutorily required contributions*	<u>446,477</u>	<u>420,512</u>	<u>1,737,697</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Reporting unit's covered-employee payroll**	\$ 5,570,164	\$ 5,377,202	\$ 5,340,479
Contributions as a percentage of covered-employee payroll	8.02 %	7.82 %	32.54 %

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

** The employer's covered payroll is defined by GASB 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 75 in 2018, the 10 year history will be provided prospectively until a full 10 year history is shown.

HEMLOCK PUBLIC SCHOOLS
Notes to Required Supplementary Information
For the Year Ended June 30, 2020

Changes of benefit terms: There were no changes of benefit terms in 2020.

Changes of assumptions: Assumption changes are a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation.

HEMLOCK PUBLIC SCHOOLS
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2020

	Special Revenue Funds			
	Food Service	Student/ School Activities	Capital Projects Fund	Total
	<u>Assets</u>			
Cash and investments	\$ 22,371	\$ 270,728	\$ 10,263	\$ 303,362
Receivables - net:				
Due from other funds	26,824	0	0	26,824
Inventories	2,913	0	0	2,913
Total assets	\$ 52,108	\$ 270,728	\$ 10,263	\$ 333,099
	<u>Liabilities and Fund Balance</u>			
<u>Liabilities</u>				
Accounts payable	\$ 268	\$ 1,224	\$ 0	\$ 1,492
Due to other funds	0	795	0	795
Accrued payroll and other liabilities	5,778	0	0	5,778
Deferred revenue	481	0	0	481
Total liabilities	6,527	2,019	0	8,546
<u>Fund Balance</u>				
Non-spendable - inventory	2,913	0	0	2,913
Restricted for capital projects	0	0	10,263	10,263
Restricted for food service	42,668	0	0	42,668
Committed for student/school activities	0	268,709	0	268,709
Total fund balance	45,581	268,709	10,263	324,553
	\$ 52,108	\$ 270,728	\$ 10,263	\$ 333,099

HEMLOCK PUBLIC SCHOOLS
Other Supplemental Information
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2020

	<u>Special Revenue Funds</u>			<u>Total</u>
	<u>Food Service</u>	<u>Student/ School Activities</u>	<u>Capital Projects Fund</u>	
Local sources	\$ 123,082	\$ 344,778	\$ 3,759	\$ 471,619
State sources	17,285	0	0	17,285
Federal sources	256,741	0	0	256,741
Total revenues	<u>397,108</u>	<u>344,778</u>	<u>3,759</u>	<u>745,645</u>
<u>Expenditures</u>				
Current:				
Food services	397,605	0	0	397,605
Student/school activities	0	351,947	0	351,947
Capital outlay	0	0	10,651	10,651
Information services	0	0	2,308	2,308
Total expenditures	<u>397,605</u>	<u>351,947</u>	<u>12,959</u>	<u>762,511</u>
Excess (deficiency) of revenues over expenditures	(497)	(7,169)	(9,200)	(16,866)
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	2,999	0	0	2,999
Net change in fund balance	2,502	(7,169)	(9,200)	(13,867)
Fund balance - beginning of year, restated	43,079	275,878	19,463	338,420
Fund balance - end of year	<u>\$ 45,581</u>	<u>\$ 268,709</u>	<u>\$ 10,263</u>	<u>\$ 324,553</u>

HEMLOCK PUBLIC SCHOOLS
 Other Supplemental Information
 Schedule of Bonded Indebtedness - 2013 Issue
 For the Year Ended June 30, 2020

<u>PURPOSE</u>	The bonds were issued for the purpose of remodeling, equipping and re-equipping and furnishing and refurbishing school district buildings; erecting an addition to the high school building; acquiring and installing instructional technology in school buildings; purchasing school buses; and developing, improving and equipping playgrounds, athletic facilities, athletic fields and sites.		
<u>DATE OF ISSUE</u>	June 30, 2013		
<u>INTEREST PAYABLE</u>	May 1 and November 1 of each year		
<u>AMOUNT OF ISSUE</u>		\$	7,500,000
<u>AMOUNT OF REDEEMED</u>			
	During prior years	\$	735,000
	During current year	<u>180,000</u>	<u>915,000</u>
<u>BALANCE OUTSTANDING - June 30, 2020</u>		<u>\$</u>	<u>6,585,000</u>

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	2.00%	\$ 190,000	\$ 279,800	\$ 469,800
2022	2.00%	655,000	274,100	929,100
2023	3.00%	1,830,000	247,900	2,077,900
2024	3.00%	1,915,000	156,400	2,071,400
2025	3.00%	<u>1,995,000</u>	<u>79,800</u>	<u>2,074,800</u>
		<u>\$ 6,585,000</u>	<u>\$ 1,038,000</u>	<u>\$ 7,623,000</u>

HEMLOCK PUBLIC SCHOOLS
Other Supplemental Information
Schedule of Bonded Indebtedness - 2015 Issue
For the Year Ended June 30, 2020

<u>PURPOSE</u>	The 2015 refunding bonds were issued for the purpose of improvement of school facilities.		
<u>DATE OF ISSUE</u>	March 10, 2015		
<u>INTEREST PAYABLE</u>	May 1 and November 1 of each year		
<u>AMOUNT OF ISSUE</u>			\$ 7,945,000
<u>AMOUNT OF REDEEMED</u>			
	During prior years	\$ 4,545,000	
	During current year	<u>1,240,000</u>	<u>5,785,000</u>
<u>BALANCE OUTSTANDING - June 30, 2020</u>			<u>\$ 2,160,000</u>

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	4.00%	\$ 1,285,000	\$ 86,400	\$ 1,371,400
2022	4.00%	<u>875,000</u>	<u>35,000</u>	<u>910,000</u>
		<u>\$ 2,160,000</u>	<u>\$ 121,400</u>	<u>\$ 2,281,400</u>

HEMLOCK PUBLIC SCHOOLS
Other Supplemental Information
Schedule of Bonded Indebtedness - 2017 Issue
For the Year Ended June 30, 2020

PURPOSE

The bonds were issued for the purpose of remodeling, equipping and re-equipping and furnishing and refurbishing school district buildings; erecting an addition to the high school building; acquiring and installing instructional technology in school buildings; purchasing school buses; and developing, improving and equipping playgrounds, athletic facilities, athletic fields and sites.

DATE OF ISSUE

June 12, 2017

INTEREST PAYABLE

May 1 and November 1 of each year

AMOUNT OF ISSUE

\$ 465,000

AMOUNT OF REDEEMED

During prior years	\$ 175,000	
During current year	95,000	270,000

BALANCE OUTSTANDING - June 30, 2020

\$ 195,000

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	2.10%	\$ 95,000	\$ 4,345	\$ 99,345
2022	2.35%	100,000	2,350	102,350
		\$ 195,000	\$ 6,695	\$ 201,695

HEMLOCK PUBLIC SCHOOLS
 Other Supplemental Information
 Schedule of Bonded Indebtedness - 2018 Issue
 For the Year Ended June 30, 2020

<u>PURPOSE</u>	The 2018 Improvement bonds were issued for the purpose of improvement of school to make the district more energy efficient.		
<u>DATE OF ISSUE</u>	December 20, 2018		
<u>INTEREST PAYABLE</u>	May 1 and November 1 of each year		
<u>AMOUNT OF ISSUE</u>		\$	1,725,000
<u>AMOUNT OF REDEEMED</u>			
	During prior years	\$	0
	During current year	<u>70,000</u>	<u>70,000</u>
<u>BALANCE OUTSTANDING - June 30, 2020</u>		<u>\$</u>	<u>1,655,000</u>

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	3.50%	\$ 35,000	\$ 58,287	\$ 93,287
2022	3.50%	40,000	57,063	97,063
2023	3.50%	45,000	55,662	100,662
2024	3.50%	50,000	54,088	104,088
2025	3.50%	55,000	52,338	107,338
2026	3.50%	60,000	50,413	110,413
2027	3.50%	65,000	48,313	113,313
2028	3.50%	70,000	46,038	116,038
2029	3.50%	75,000	43,588	118,588
2030	3.50%	80,000	40,963	120,963
2031	3.50%	85,000	38,163	123,163
2032	3.50%	95,000	35,187	130,187
2033	3.50%	105,000	31,862	136,862
2034	3.50%	115,000	28,188	143,188
2035	3.50%	125,000	24,163	149,163
2036	3.50%	130,000	19,788	149,788
2037	3.50%	135,000	15,238	150,238
2038	3.50%	140,000	10,513	150,513
2039	3.50%	150,000	5,437	155,437
		<u>\$ 1,655,000</u>	<u>\$ 715,292</u>	<u>\$ 2,370,292</u>



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

September 23, 2020

Board of Education
Hemlock Public Schools
Hemlock, Michigan

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Hemlock Public Schools (School District), as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise Hemlock Public Schools' basic financial statements and have issued our report thereon dated September 23, 2020.

Internal Control Over Financial Reporting

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

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

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



Board of Education
Hemlock Public Schools
September 23, 2020

Compliance and Other Matters

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

Purpose of this Report

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

Weinlander Fitzhugh

HEMLOCK PUBLIC SCHOOLS
Summary Schedule of Prior Year Findings
For the Year Ended June 30, 2020

There were no matters reported in the prior year's audit.