



WEINLANDER FITZHUGH

HEMLOCK PUBLIC SCHOOLS
HEMLOCK, MICHIGAN
FINANCIAL STATEMENTS
JUNE 30, 2019

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WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

September 27, 2019

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, 2019 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, 2019 and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

1600 Center Avenue | PO Box 775 | Bay City, MI 48707-0775

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Board of Education
Hemlock Public Schools
September 27, 2019

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2019, 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, 2019

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, 2019.

Financial Highlights

The School District's net position increased by \$28,154. Program revenues were \$3,109,389 or 21% of total revenues, and general revenues were \$11,387,174 or 79%.

The General Fund reported a positive fund balance of \$2,627,218. The Debt Service Fund reported a positive fund balance of \$408,003. The Energy Bond Capital Project fund reported a positive fund balance of \$704,417.

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 remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students. 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, 2019

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. The School District's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of 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.

Fiduciary Funds

The School District is the trustee, or fiduciary, for its student activity funds and scholarship funds. All of the School District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. We exclude these activities from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

HEMLOCK PUBLIC SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2019

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, 2019 and 2018:

Exhibit A	Governmental Activities	
	2019	2018
Assets		
Current and other assets	\$ 5,171,825	\$ 4,918,119
Capital assets - net of accumulated depreciation	12,501,276	12,956,112
Total assets	17,673,101	17,874,231
Deferred Outflows of Resources		
Deferred loss on refunding	71,892	95,857
Related to pensions and OPEB	7,100,811	4,131,444
Total deferred outflows of resources	7,172,703	4,227,301
Liabilities		
Current liabilities	3,041,630	3,808,892
Long-term liabilities	35,395,941	33,467,674
Total liabilities	38,437,571	37,276,566
Deferred Inflows of Resources		
Related to pensions and OPEB	3,764,715	2,209,602
Net Position		
Net investment in capital assets	535,899	478,707
Restricted	346,066	481,557
Unrestricted	(18,238,447)	(18,344,900)
Total net position	\$ (17,356,482)	\$ (17,384,636)

The analysis above focuses on net position (see Exhibit A). The School District's net position of governmental activities was \$(17,356,482) at June 30, 2019. Investment in property and equipment, net of related debt totaling \$535,899, 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 \$(18,238,447) 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, 2019

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 \$19,145,952 for 2019 and \$16,636,568 for 2018.

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 \$5,026,415 for 2019 and \$5,673,381 for 2018.

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, 2019 and 2018.

Exhibit B	Governmental Activities	
	2019	Nonrestated 2018
Revenues		
Program revenue:		
Charges for services	\$ 722,715	\$ 719,110
Grants and categoricals	2,386,674	2,344,936
General revenue:		
Property taxes	2,966,550	3,030,883
State aid	8,358,046	8,129,045
Other	62,578	98,268
Total revenues	14,496,563	14,322,242
Function/Program Expenses		
Instruction	7,050,963	6,878,060
Support services	4,464,136	4,068,063
Community services	264,634	254,451
Food services	393,280	383,460
Athletics	239,272	219,579
Capital outlay	641,816	93,088
Interest on long-term debt	460,953	394,650
Depreciation (unallocated)	953,355	935,372
Total expenses	14,468,409	13,226,723
Change in Net Position	\$ 28,154	\$ 1,095,519

As reported in the statement of activities, the cost of all of our governmental activities this year was \$14,468,409. Certain activities were partially funded from those who benefited from the programs, \$722,715, or by the other governments and organizations that subsidized certain programs with grants and categoricals of \$2,386,674. We paid for the remaining "public benefit" portion of our governmental activities with \$2,966,550 in taxes, \$8,358,046 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, 2019

The School District's governmental activities had an increase in net position of \$28,154. The major reason was increased revenues attributable mostly to an increase in the per pupil foundation coupled with organizational effectiveness gained by controlling expenses in alignment with our strategic plan. The increase 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.

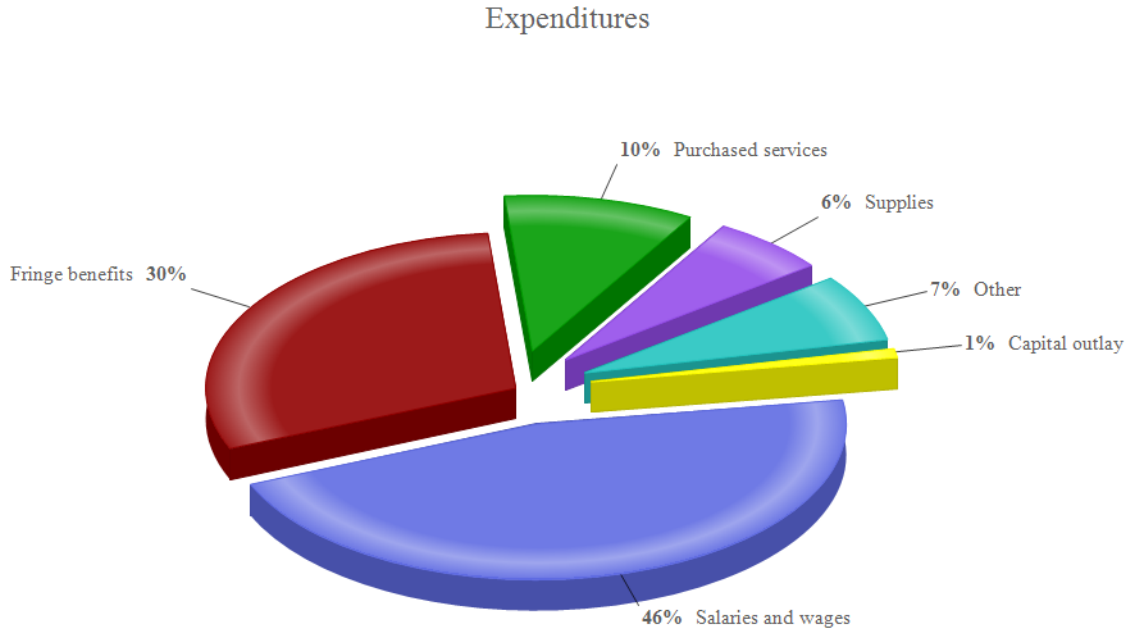
The School District's governmental funds reported a combined fund balance of \$3,802,180, which is above last year's total of \$2,606,629. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2019 and 2018.

	Fund Balance <u>6/30/2019</u>	Fund Balance <u>6/30/2018</u>	Increase (Decrease)
General	\$ 2,627,218	\$ 2,014,267	\$ 612,951
Debt Service	408,003	414,667	(6,664)
Energy Bond Capital Projects	704,417	0	704,417
Special Revenue	43,079	71,103	(28,024)
Capital Projects	19,463	106,592	(87,129)
	<u>\$ 3,802,180</u>	<u>\$ 2,606,629</u>	<u>\$ 1,195,551</u>

- Our General Fund increase is due to 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 increased due to the issuance of a bond during the fiscal year.
- Our Special Revenue Funds decreased due to decreased federal aid and increased expenses due to cafeteria renovations.
- Our Capital Projects Fund decreased due to no additional issuance of bonds in the current year and continued planned expenses.

HEMLOCK PUBLIC SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2019

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	2019	2018
Salaries and wages	\$ 5,325,148	\$ 5,360,282
Fringe benefits	3,490,331	3,703,266
Purchased services	1,128,234	1,103,220
Supplies	739,988	690,762
Capital outlay	34,144	0
Other	862,347	783,795
Total	<u>\$ 11,580,192</u>	<u>\$ 11,641,325</u>

Expenditures have decreased by \$61,133 from the prior year mainly due to planned conservative spending, conservative budgeting and management oversight.

HEMLOCK PUBLIC SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2019

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 \$195,117 due to additional child care revenue, increased At-Risk and retirement allocations from the State of Michigan, and additional federal grant carryover funds available.
- Budgeted expenditures were decreased by \$170,872 mainly because of changes in staffing and stronger alignment of budgeted amounts with planned spending.
- Actual revenues came in \$21,529 more along with expenditures \$493,822 lower in comparison to the final operating budget.

Capital Assets

At June 30, 2019, the School District had \$12,501,276 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 4% from last year.

	2019	2018
Land	\$ 688,500	\$ 688,500
Construction in process	104,001	0
Buildings and improvements	30,846,950	30,533,534
Buses and other vehicles	803,903	794,903
Furniture and equipment	1,634,304	1,710,969
Total capital assets	34,077,658	33,727,906
Less accumulated depreciation	21,576,382	20,771,794
Net capital assets	\$ 12,501,276	\$ 12,956,112

This year's additions of \$498,519 were for boilers, soccer lights, energy saving additions including a building automation system and gym destratification fans, a playground, building signage, copiers, and a bus. Both the soccer lighting and the playground at K.C. Ling Elementary School were made possible by local donations.

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, 2019

Debt

At the end of this year, the School District had \$12,180,000 in bonds outstanding versus \$11,910,000 in the previous year.

	<u>2019</u>	<u>2018</u>
2013 Improvement Bonds	\$ 6,765,000	\$ 6,935,000
2015 Refunding Bonds	3,400,000	4,595,000
2017 Improvement Bonds	290,000	380,000
2018 Energy Bond	1,725,000	0
	<u>\$ 12,180,000</u>	<u>\$ 11,910,000</u>

Factors Expected to have an Effect on Future Operations

Our elected Board and administration consider many factors when setting the School District's 2020 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 2020 fiscal year budget was adopted in June 2019, based on an estimate of students that will be enrolled in September 2019. 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 2019 - 2020 school year, we anticipate that the fall student count will remain consistent with estimates used in creating the 2020 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 2019 - 2020.

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, 2019

	Governmental Activities
<u>Assets</u>	
Cash and cash equivalents	\$ 3,142,487
Receivables - net:	
Accounts receivable	6,512
Due from other governmental units	1,992,575
Internal balances	2,446
Inventories	6,705
Prepaid expenses	21,100
Capital assets less accumulated depreciation \$21,576,382	12,501,276
Total assets	17,673,101
 <u>Deferred Outflows of Resources</u>	
Deferred loss on refunding	71,892
Related to pensions	6,246,808
Related to OPEB	854,003
Total Deferred Outflows of Resources	7,172,703
 <u>Liabilities</u>	
Accounts payable	117,262
Unearned revenue	113,070
Accrued payroll and other liabilities	969,993
State aid anticipation note payable	169,320
Accrued interest payable	81,400
Long-term liabilities:	
Due within one year	1,590,585
Due in more than one year	11,223,574
Net pension liability	19,145,952
Net OPEB liability	5,026,415
Total liabilities	38,437,571
 <u>Deferred Inflows of Resources</u>	
Related to pensions	2,558,596
Related to OPEB	1,206,119
Total deferred inflows of resources	3,764,715
 <u>Net Position</u>	
Net investment in capital assets	535,899
Restricted for debt service	326,603
Restricted for capital projects	19,463
Unrestricted	(18,238,447)
Total net position	\$ (17,356,482)

See accompanying notes to financial statements.

HEMLOCK PUBLIC SCHOOLS
Statement of Activities
For the Year Ended June 30, 2019

	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	\$ 7,050,963	\$ 185,717	\$ 2,082,152	\$ (4,783,094)
Support services	4,464,136	0	47,722	(4,416,414)
Community services	264,634	275,379	0	10,745
Food services	393,280	151,804	227,872	(13,604)
Athletics	239,272	109,815	28,928	(100,529)
Capital outlay	641,816	0	0	(641,816)
Interest on long-term debt	460,953	0	0	(460,953)
Depreciation (unallocated)	953,355	0	0	(953,355)
	\$ 14,468,409	\$ 722,715	\$ 2,386,674	(11,359,020)
Total governmental activities				
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,368,779
Property taxes, levied for debt services				1,597,771
State aid				8,358,046
Interest and investment earnings				28,250
Other				34,328
				11,387,174
Total general revenues				
Change in net position				28,154
Net position - beginning of year				(17,384,636)
Net position - end of year				\$ (17,356,482)

See accompanying notes to financial statements.

HEMLOCK PUBLIC SCHOOLS
Governmental Funds
Balance Sheet
June 30, 2019

	General	Debt Service	Energy Bond Capital Project	Other Nonmajor Governmental Funds	Total
<u>Assets</u>					
Cash and cash equivalents	\$ 1,945,191	\$ 402,530	\$ 700,388	\$ 94,378	\$ 3,142,487
Receivables - net:					
Accounts receivable	1,039	5,473	0	0	6,512
Due from other funds	32,307	0	22,102	0	54,409
Due from other governmental units	1,992,575	0	0	0	1,992,575
Inventories	4,885	0	0	1,820	6,705
Prepaid expenditures	21,100	0	0	0	21,100
 Total assets	<u>\$ 3,997,097</u>	<u>\$ 408,003</u>	<u>\$ 722,490</u>	<u>\$ 96,198</u>	<u>\$ 5,223,788</u>
<u>Liabilities and Fund Balance</u>					
<u>Liabilities</u>					
Accounts payable	\$ 97,880	\$ 0	\$ 18,073	\$ 1,309	\$ 117,262
Due to other funds	22,102	0	0	29,861	51,963
Unearned revenue	112,091	0	0	979	113,070
Accrued payroll and other liabilities	968,486	0	0	1,507	969,993
State aid anticipation note payable	169,320	0	0	0	169,320
 Total liabilities	<u>1,369,879</u>	<u>0</u>	<u>18,073</u>	<u>33,656</u>	<u>1,421,608</u>
<u>Fund Balance</u>					
Nonspendable - inventory	4,885	0	0	1,820	6,705
Nonspendable - prepaid	21,100	0	0	0	21,100
Restricted for debt service	0	408,003	0	0	408,003
Restricted for capital projects	0	0	704,417	19,463	723,880
Restricted for food service	0	0	0	41,259	41,259
Unassigned	2,601,233	0	0	0	2,601,233
 Total fund balance	<u>2,627,218</u>	<u>408,003</u>	<u>704,417</u>	<u>62,542</u>	<u>3,802,180</u>
 Total liabilities and fund balance	<u>\$ 3,997,097</u>	<u>\$ 408,003</u>	<u>\$ 722,490</u>	<u>\$ 96,198</u>	<u>\$ 5,223,788</u>

See accompanying notes to financial statements.

HEMLOCK PUBLIC SCHOOLS
 Reconciliation of Balance Sheet of Governmental Funds
 to the Statement of Net Position
June 30, 2019

Total fund balance - governmental funds	\$ 3,802,180
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	34,077,658
Accumulated depreciation	(21,576,382)
Deferred outflows used in governmental activities are not financial resources and therefore are not reported in governmental funds:	
Deferred loss on refunding	71,892
Related to pensions	6,246,808
Related to OPEB	854,003
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(12,180,000)
Compensated absences	(72,473)
Capital lease obligation	(21,640)
Bond premium, net of amortization	(540,046)
Net pension liability	(19,145,952)
Net OPEB liability	(5,026,415)
Accrued interest payable is included as a liability in governmental activities	(81,400)
Deferred inflows used in governmental activities are not recognized as current resources and therefore are not reported in governmental funds:	
Related to pensions	(2,558,596)
Related to OPEB	(1,206,119)
Total net position - governmental activities	<u>\$ (17,356,482)</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, 2019

	General	Debt Service	Energy Bond Capital Project	Other Nonmajor Governmental Funds	Total
<u>Revenues</u>					
Local sources	\$ 1,987,984	\$ 1,606,712	\$ 5,690	\$ 159,516	\$ 3,759,902
State sources	9,495,048	324,597	0	17,171	9,836,816
Federal sources	537,959	0	0	210,701	748,660
Interdistrict and other sources	175,150	0	0	0	175,150
Total revenues	<u>12,196,141</u>	<u>1,931,309</u>	<u>5,690</u>	<u>387,388</u>	<u>14,520,528</u>
<u>Expenditures</u>					
Current:					
Instruction	6,745,053	0	0	0	6,745,053
Support services	4,281,190	0	40,455	22,418	4,344,063
Community services	264,634	0	0	0	264,634
Athletics	239,272	0	0	0	239,272
Capital outlay	15,227	0	969,461	64,883	1,049,571
Food services	0	0	0	418,238	418,238
Principal	0	1,455,000	0	0	1,455,000
Interest and other	34,816	482,973	16,357	0	534,146
Total expenditures	<u>11,580,192</u>	<u>1,937,973</u>	<u>1,026,273</u>	<u>505,539</u>	<u>15,049,977</u>
Excess (deficiency) of revenues over expenditures	<u>615,949</u>	<u>(6,664)</u>	<u>(1,020,583)</u>	<u>(118,151)</u>	<u>(529,449)</u>
<u>Other Financing Sources (Uses)</u>					
Operating transfers in	0	0	0	2,998	2,998
Operating transfers out	(2,998)	0	0	0	(2,998)
Proceeds from bond issuance	0	0	1,725,000	0	1,725,000
Total other financing sources (uses)	<u>(2,998)</u>	<u>0</u>	<u>1,725,000</u>	<u>2,998</u>	<u>1,725,000</u>
Net change in fund balance	612,951	(6,664)	704,417	(115,153)	1,195,551
Fund balance - beginning of year	<u>2,014,267</u>	<u>414,667</u>	<u>0</u>	<u>177,695</u>	<u>2,606,629</u>
Fund balance - end of year	<u>\$ 2,627,218</u>	<u>\$ 408,003</u>	<u>\$ 704,417</u>	<u>\$ 62,542</u>	<u>\$ 3,802,180</u>

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, 2019

Net change in fund balance - total governmental funds	\$ 1,195,551
<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	(953,355)
Capital outlay	498,519
<p>Long-term liabilities are not due and payable in the current period and are not reported in the funds:</p>	
Capital lease payments	5,635
<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>	
Proceeds from issuance of debt	(1,725,000)
Proceeds from capital lease obligation	(18,950)
Payments on long-term debt	1,455,000
Amortization of bond premium	134,059
Amortization on loss on refunding	(23,965)
Bond premium	(19,168)
<p>Increases in compensated absences are reported as a reduction in expenditures when financial resources are used in the governmental fund in accordance with GASB Interpretation No. 6</p>	
	(30,310)
<p>Increases in accrued interest are reported as an deduction in expenses on the Statement of Activities</p>	
	(41,697)
<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	(611,882)
OPEB related items	163,717
Change in net position of governmental activities	\$ 28,154

See accompanying notes to financial statements.

HEMLOCK PUBLIC SCHOOLS
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2019

	<u>Agency Funds</u>	<u>Private Purpose Trusts</u>
<u>Assets</u>		
Cash and investments	\$ 240,508	\$ 37,815
<u>Liabilities</u>		
Due to student groups	\$ 238,062	
Due to other funds	<u>2,446</u>	
Total liabilities	<u>\$ 240,508</u>	
<u>Net Position</u>		
Held in trust for scholarships		<u>\$ 37,815</u>

HEMLOCK PUBLIC SCHOOLS
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2019

<u>Revenues</u>		<u>Private Purpose Trusts</u>
Contributions and investment income		\$ 138
Transfers		<u>1,000</u>
Total revenues		<u>1,138</u>
<u>Expenditures</u>		
Scholarships		<u>2,000</u>
Total expenditures		<u>2,000</u>
Change in net position		(862)
Net position - beginning of year		<u>38,677</u>
Net position - end of year		<u>\$ 37,815</u>

See accompanying notes to financial statements.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2019

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 and fiduciary funds, even though the latter are excluded from the district-wide financial statements. 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, 2019

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.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

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, 2019

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, 2019

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, 2019

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, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State Aid - For the fiscal year ended June 30, 2019, 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, 2019, the foundation allowance was based on the average pupil membership counts taken in February of 2018 and September of 2018.

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 2018 - August 2019. The local revenue is recognized as outlined in Note 1. Amounts receivable from the State of Michigan at June 30, 2019 relating to state aid is \$1,723,256.

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, 2019

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

Some statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and Investments	\$ 3,142,487	\$ 278,323	\$ 3,420,810

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 3,420,792
Petty cash and cash on hand	18
Total	\$ 3,420,810

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2019

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.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2019, the School District's investment in the investment pool was rated AAA by Standard & Poor's.

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, 2019, \$3,098,673 of the School District's bank balance of \$4,288,132 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The balance of the sweep accounts was used to purchase short-term federal debt securities.

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

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

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2019

NOTE 4 - CAPITAL ASSETS

A summary of changes in governmental capital assets follows:

	Balance June 30, 2018	Additions	Disposals and Adjustments	Balance June 30, 2019
Assets not being depreciated:				
Land	\$ 688,500	\$ 0	\$ 0	\$ 688,500
Construction in process	0	104,001	0	104,001
Subtotal	<u>688,500</u>	<u>104,001</u>	<u>0</u>	<u>792,501</u>
Capital assets being depreciated:				
Buildings and improvements	30,533,534	313,416	0	30,846,950
Buses and other vehicles	794,903	9,000	0	803,903
Furniture and equipment	1,710,969	72,102	(148,767)	1,634,304
Subtotal	<u>33,039,406</u>	<u>394,518</u>	<u>(148,767)</u>	<u>33,285,157</u>
Accumulated depreciation:				
Buildings and improvements	18,897,694	831,987	0	19,729,681
Buses and other vehicles	489,634	64,897	0	554,531
Furniture and equipment	1,384,466	56,471	(148,767)	1,292,170
Subtotal	<u>20,771,794</u>	<u>953,355</u>	<u>(148,767)</u>	<u>21,576,382</u>
Net capital assets being depreciated	<u>12,267,612</u>	<u>(558,837)</u>	<u>0</u>	<u>11,708,775</u>
Net capital assets	<u>\$ 12,956,112</u>	<u>\$ (454,836)</u>	<u>\$ 0</u>	<u>\$ 12,501,276</u>

Depreciation expense for fiscal year ended June 30, 2019 was \$953,355. 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, 2019

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A summary of interfund receivable and payable balances at June 30, 2019 are as follows:

		Payables			
		General	Food Service	Student Activities	Total
Receivables	General	\$ 0	\$ 29,861	\$ 2,446	\$ 32,307
	Energy Bond Capital Projects	22,102	0	0	22,102
		\$ 22,102	\$ 29,861	\$ 2,446	\$ 54,409

A summary of interfund transfers made during the year ended June 30, 2019 are as follows:

		Transfers Out
		General
Transfers In	Food Service	\$ 2,998

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, 2019 consist of accounts (fees) and intergovernmental grants.

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

State aid and grants	\$ 1,723,256
Federal grants	23,160
ISD	229,403
Other governments	16,756
	\$ 1,992,575

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 \$113,070.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2019

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, 2019, the School District has issued a state aid anticipation note payable in the amount of \$500,000, which has an interest rate of 1.75% and matures on July 22, 2019. The note is secured by the full faith and credit of the School District as well as pledged state aid. In an event of a default on the note, the state may impose a penalty interest rate and at the state's discretion, accelerate the repayment terms. Activity for the year ended June 30, 2019 is as follows:

<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
\$ 857,256	\$ 500,000	\$ 1,187,936	\$ 169,320

Subsequent to June 30, 2018, the School District borrowed a state aid anticipation note dated August 20, 2018 in the amount of \$500,000.

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, 2019:

	<u>Balance June 30, 2018</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2019</u>	<u>Amount Due Within One Year</u>
General obligation bonds	\$ 12,564,937	\$ 1,744,168	\$ 1,589,059	\$ 12,720,046	\$ 1,585,000
Compensated absences	42,163	30,310	0	72,473	0
Capital lease obligations - See Note 14	8,325	18,950	5,635	21,640	5,585
	<u>\$ 12,615,425</u>	<u>\$ 1,793,428</u>	<u>\$ 1,594,694</u>	<u>\$ 12,814,159</u>	<u>\$ 1,590,585</u>

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2019

NOTE 9 - LONG-TERM OBLIGATIONS (CONTINUED)

Long-term obligations at June 30, 2019 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%	\$ 6,765,000
\$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%	3,400,000
\$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%	290,000
\$1,725,000 2018 Improvement bonds due in annual installments of \$70,000 to \$150,000 through November 1, 2039; interest at 3.5%	1,725,000
Bond premium	<u>540,046</u>
Total bonded debt	<u>\$ 12,720,046</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, 2019, the amount of \$72,473 has been recorded in the district-wide financial statements.

The annual requirements to amortize bonds outstanding as of June 30, 2019, including interest payments are as follows:

<u>Year Ended June 30</u>	General Obligation Bonds		
	Principal	Interest	Total
2020	\$ 1,585,000	\$ 488,134	\$ 2,073,134
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 - 2029	2,320,000	320,490	2,640,490
2030 - 2034	480,000	174,363	654,363
2035 - 2039	680,000	75,139	755,139
	<u>\$ 12,180,000</u>	<u>\$ 2,369,521</u>	<u>\$ 14,549,521</u>

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2019

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, 2019

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, 2019

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, 2019

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

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2019

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, 2019

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.

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

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

The School District's pension contributions for the year ended June 30, 2019 were equal to the required contribution total. Pension contributions were approximately \$1,655,000, with \$1,746,000 specifically for the Defined Benefit Plan.

The School District's OPEB contributions for the year ended June 30, 2019 were equal to the required contribution total. OPEB benefits were approximately \$422,000, with \$421,000 specifically for the Defined Benefit Plan.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2019

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

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

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

Pension Liabilities

At June 30, 2019, the School District reported a liability of \$19,145,952 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2017 and rolled-forward using generally accepted actuarial procedures. The 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. At September 30, 2018 and 2017, the School District's proportion was 0.06369 and 0.06420 percent.

MPSERS (Plan) Net Pension Liability - As of September 30, 2018:

MPSERS (Plan) Non-University Employers:	September 30, 2018	September 30, 2017
Total Pension Liability	\$ 79,863,694,444	\$ 72,407,218,688
Plan Fiduciary Net Position	\$ 49,801,889,205	\$ 46,492,967,573
Net Pension Liability	\$ 30,061,805,239	\$ 25,914,251,115
Proportionate share	0.06369 %	0.06420 %
Net Pension liability for the School District	\$ 19,145,952	\$ 16,636,568

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

For the year ended June 30, 2019, the School District recognized pension expense of approximately \$1,559,000.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2019

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

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

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between expected and actual experience	\$ 88,841	\$ (139,130)
Net difference between projected and actual earnings on pension plan investments	0	(1,309,096)
Changes in assumptions	4,434,187	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	210,616	(328,021)
Unearned revenue related to pension portion of section 147 c	0	(782,349)
School District's contributions subsequent to the measurement date	1,513,164	0
Total	\$ 6,246,808	\$ (2,558,596)

\$1,513,164, 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 year ended June 30, 2020.

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	Amount
2020	\$ 1,208,269
2021	925,341
2022	585,052
2023	238,735
	\$ 2,957,397

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2019

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

At June 30, 2019, the School District reported a liability of \$5,026,415 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2017 and rolled-forward using generally accepted actuarial procedures. The 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. At September 30, 2018 and 2017, the School District's proportion was 0.06323 and 0.06407 percent.

MPSERS (Plan) Non-University Employers:	September 30, 2018	September 30, 2017
Total OPEB Liability	\$ 13,932,170,264	\$ 13,920,945,991
Plan Fiduciary Net Position	\$ 5,983,218,473	\$ 5,065,474,948
Net OPEB Liability	\$ 7,948,951,791	\$ 8,855,471,043
Proportionate share	0.06323 %	0.06407 %
Net OPEB liability for the School District	\$ 5,026,415	\$ 5,673,381

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

For the year ended June 30, 2019, the School District recognized OPEB expense of approximately \$157,000.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2019

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

At June 30, 2019, 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	\$ (935,545)
Net difference between projected and actual plan investments	0	(193,177)
Changes in assumption	532,300	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,443	(77,397)
School District's contributions subsequent to the measurement date	320,260	0
Total	\$ 854,003	\$ (1,206,119)

\$320,260, 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 September 30	Amount
2020	\$ (163,696)
2021	(163,696)
2022	(163,696)
2023	(124,487)
2024	(56,801)
	\$ (672,376)

Actuarial Assumptions

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

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2019

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

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

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

Inflation - 3.0%

Mortality assumptions -

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

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

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

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

The long-term expected rate of return on pension and other postemployment benefit plan investments - The rate was 7.05% (7% Pension Plus Plan and 6.0% Pension Plus 2), and the other postemployment benefit rate was 7.15% net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

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

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

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

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

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2019

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%	5.7%
Private Equity Pools	18.0%	9.2%
International Equity Pools	16.0%	7.2%
Fixed Income Pools	10.5%	0.5%
Real Estate and Infrastructure Pools	10.0%	3.9%
Absolute Return Pools	15.5%	5.2%
Short Term Investment Pools	2.0%	0.0%
Total	100.0%	

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

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

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

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2019

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

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 7.05% (7.00% for Pension Plus Plan and 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>\$25,137,156</u>	<u>\$19,145,952</u>	<u>\$14,168,235</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 7.15%, as well as what the Reporting Unit's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Other postemployment benefit		
	1% Decrease	Discount Rate	1% Increase
School District's proportionate share of the net other postemployment benefit liability	<u>\$6,034,109</u>	<u>\$5,026,415</u>	<u>\$4,178,821</u>

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2019

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 3.0%), 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>\$4,134,171</u>	<u>\$5,026,415</u>	<u>\$6,050,001</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 2018 Comprehensive Annual Financial Report.

Payable to the Pension and OPEB Plan - At year end the School District is current on all required pension and other postemployment benefit plan payments. Amounts accrued at year end for accounting purposes are 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.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2019

NOTE 13 - ECONOMIC DEPENDENCY

The School District received approximately 78% 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.

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, 2019 was \$5,585.

The annual payments are as follows:

2020	\$	6,480
2021		6,480
2022		4,005
2023		3,780
2024		895
		\$ 21,640

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	\$	13,074
Revenue		
Contributions		27,305
Expenses		
Materials and equipment	\$	9,519
Educational activities		4,973
Other		2,655
Total expenses		17,147
Cash balance, end of the year	\$	23,232

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2019

NOTE 16 - 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>1,126,932</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 17 - UPCOMING ACCOUNTING PRONOUNCEMENT

Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities, was issued by GASB in January 2017 and will be 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 on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. School Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

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

HEMLOCK PUBLIC SCHOOLS
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2019

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Local sources	\$ 1,825,914	\$ 1,930,973	\$ 1,987,984	\$ 57,011
State sources	9,414,994	9,547,854	9,495,048	(52,806)
Federal sources	581,087	555,621	537,959	(17,662)
Interdistrict and other sources	157,500	140,164	175,150	34,986
Total revenues	<u>11,979,495</u>	<u>12,174,612</u>	<u>12,196,141</u>	<u>21,529</u>
<u>Expenditures</u>				
Instruction:				
Basic programs	5,578,760	5,383,305	5,228,767	154,538
Added needs	1,627,997	1,671,064	1,516,286	154,778
Support services:				
Pupil	568,495	584,137	568,519	15,618
Instructional staff	295,412	336,088	305,518	30,570
General administrative	402,772	387,863	381,449	6,414
School administrative	723,647	731,570	709,098	22,472
Business services	227,465	221,436	203,309	18,127
Operations and maintenance	1,255,964	1,209,507	1,231,752	(22,245)
Transportation	504,554	524,863	507,703	17,160
Information services	390,719	358,654	340,919	17,735
Other	78,511	41,532	67,739	(26,207)
Community services	279,476	293,004	264,634	28,370
Athletics	236,616	252,028	239,272	12,756
Capital outlay	29,680	34,145	15,227	18,918
Total expenditures	<u>12,200,068</u>	<u>12,029,196</u>	<u>11,580,192</u>	<u>449,004</u>
Excess (deficiency) of revenues over expenditures	<u>(220,573)</u>	<u>145,416</u>	<u>615,949</u>	<u>470,533</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers out	<u>(22,608)</u>	<u>(47,816)</u>	<u>(2,998)</u>	<u>44,818</u>
Total other financing sources (uses)	<u>(22,608)</u>	<u>(47,816)</u>	<u>(2,998)</u>	<u>44,818</u>
Net change in fund balance	(243,181)	97,600	612,951	515,351
Fund balance - beginning of year	<u>2,014,267</u>	<u>2,014,267</u>	<u>2,014,267</u>	<u>0</u>
Fund balance - end of year	<u>\$ 1,771,086</u>	<u>\$ 2,111,867</u>	<u>\$ 2,627,218</u>	<u>\$ 515,351</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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.06369 %	0.06420 %	0.06483 %	0.06238 %	0.06479 %
Reporting unit's proportionate share of net pension liability	\$ 19,145,952	\$ 16,636,568	\$ 16,175,073	\$ 15,236,344	\$ 14,270,093
Reporting unit's covered-employee payroll*	\$ 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	28.11744 %	31.81628 %	34.26043 %	33.51878 %	39.73919 %
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,746,068	\$ 1,737,697	\$ 1,501,025	\$ 1,561,373	\$ 1,346,626
Contributions in relation to statutorily required contributions*	<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>
Reporting unit's covered-employee payroll**	\$ 5,377,202	\$ 5,340,479	\$ 5,395,962	\$ 5,214,001	\$ 5,430,881
Contributions as a percentage of covered-employee payroll	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>2018</u>	<u>2017</u>
Reporting unit's proportion of net OPEB liability (%)	0.06323 %	0.06407 %
Reporting unit's proportionate share of net OPEB liability	\$ 5,026,415	\$ 5,673,381
Reporting unit's covered-employee payroll*	\$ 5,383,351	\$ 5,293,137
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	107.10120 %	93.29775 %
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)	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>2019</u>	<u>2018</u>
Statutorily required contributions	\$ 420,512	\$ 1,737,697
Contributions in relation to statutorily required contributions*	<u>420,512</u>	<u>1,737,697</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>
Reporting unit's covered-employee payroll**	\$ 5,377,202	\$ 5,340,479
Contributions as a percentage of covered-employee payroll	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, 2019

Changes of benefit terms: There were no changes of benefit terms in 2019.

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, 2019

	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
	<u>Food Service</u>		
<u>Assets</u>			
Cash and investments	\$ 73,606	\$ 20,772	\$ 94,378
Inventories	<u>1,820</u>	<u>0</u>	<u>1,820</u>
Total assets	<u>\$ 75,426</u>	<u>\$ 20,772</u>	<u>\$ 96,198</u>
<u>Liabilities and Fund Balance</u>			
<u>Liabilities</u>			
Accounts payable	\$ 0	\$ 1,309	\$ 1,309
Due to other funds	29,861	0	29,861
Accrued payroll and other liabilities	1,507	0	1,507
Unearned revenue	<u>979</u>	<u>0</u>	<u>979</u>
Total liabilities	<u>32,347</u>	<u>1,309</u>	<u>33,656</u>
<u>Fund Balance</u>			
Non-spendable - inventory	1,820	0	1,820
Restricted for capital projects	0	19,463	19,463
Restricted for food service	<u>41,259</u>	<u>0</u>	<u>41,259</u>
Total fund balance	<u>43,079</u>	<u>19,463</u>	<u>62,542</u>
	<u>\$ 75,426</u>	<u>\$ 20,772</u>	<u>\$ 96,198</u>

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, 2019

	Special Revenue Fund Food Service	Capital Projects Fund	Total
<u>Revenues</u>			
Local sources	\$ 159,344	\$ 172	\$ 159,516
State sources	17,171	0	17,171
Federal sources	210,701	0	210,701
Total revenues	387,216	172	387,388
<u>Expenditures</u>			
Current:			
Food services	418,238	0	418,238
Capital outlay	0	64,883	64,883
School administrative	0	1,950	1,950
Transportation	0	7,150	7,150
Information services	0	13,318	13,318
Total expenditures	418,238	87,301	505,539
Excess (deficiency) of revenues over expenditures	(31,022)	(87,129)	(118,151)
<u>Other Financing Sources (Uses)</u>			
Operating transfers in	2,998	0	2,998
Net change in fund balance	(28,024)	(87,129)	(115,153)
Fund balance - beginning of year	71,103	106,592	177,695
Fund balance - end of year	\$ 43,079	\$ 19,463	\$ 62,542

HEMLOCK PUBLIC SCHOOLS
Other Supplemental Information
Schedule of Bonded Indebtedness - 2013 Issue
For the Year Ended June 30, 2019

<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	\$ 565,000	
	During current year	<u>170,000</u>	<u>735,000</u>
<u>BALANCE OUTSTANDING - June 30, 2019</u>			<u><u>\$ 6,765,000</u></u>

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	2.00%	\$ 180,000	\$ 285,200	\$ 465,200
2021	2.00%	190,000	279,800	469,800
2022	3.00%	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	4.00%	<u>1,995,000</u>	<u>79,800</u>	<u>2,074,800</u>
		<u><u>\$ 6,765,000</u></u>	<u><u>\$ 1,323,200</u></u>	<u><u>\$ 8,088,200</u></u>

HEMLOCK PUBLIC SCHOOLS
Other Supplemental Information
Schedule of Bonded Indebtedness - 2015 Issue
For the Year Ended June 30, 2019

<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	\$ 3,350,000	
	During current year	<u>1,195,000</u>	<u>4,545,000</u>
<u>BALANCE OUTSTANDING - June 30, 2019</u>			<u>\$ 3,400,000</u>

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	4.00%	\$ 1,240,000	\$ 136,000	\$ 1,376,000
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>\$ 3,400,000</u>	<u>\$ 257,400</u>	<u>\$ 3,657,400</u>

HEMLOCK PUBLIC SCHOOLS
 Other Supplemental Information
 Schedule of Bonded Indebtedness - 2017 Issue
 For the Year Ended June 30, 2019

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	\$ 85,000	
During current year	90,000	175,000

BALANCE OUTSTANDING - June 30, 2019

\$ 290,000

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	1.95%	\$ 95,000	\$ 6,196	\$ 101,196
2021	2.10%	95,000	4,345	99,345
2022	2.35%	100,000	2,350	102,350
		\$ 290,000	\$ 12,891	\$ 302,891

HEMLOCK PUBLIC SCHOOLS
 Other Supplemental Information
 Schedule of Bonded Indebtedness - 2018 Issue
 For the Year Ended June 30, 2019

<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	0	0
<u>BALANCE OUTSTANDING - June 30, 2019</u>		\$	<u>1,725,000</u>

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	3.50%	\$ 70,000	\$ 60,738	\$ 130,738
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>\$ 1,725,000</u>	<u>\$ 776,030</u>	<u>\$ 2,501,030</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 27, 2019

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, 2019 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 27, 2019.

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 27, 2019

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, 2019

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