

Athens Area Schools

Financial Report
With Supplemental Information

Year Ended June 30, 2019

Independent Auditors' Reporti - ii

Management's Discussion and Analysis iii-ix

Basic Financial Statements

District-Wide Financial Statements:

Statement of Net Position 1

Statement of Activities 2

Fund Financial Statements:

Governmental Funds:

Balance Sheet 3

Reconciliation of the Balance Sheet for Governmental Funds to
the Statement of Net Position 4

Statement of Revenues, Expenditures, and Changes in Fund Balances 5

Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities 6

Fiduciary Funds – Statement of Fiduciary Net Position..... 7

Notes to Financial Statements8-25

Required Supplementary Information

Budgetary Comparison Schedule - General Fund..... 26

Schedule of the District's Proportionate Share of the Net Pension Liability of the MPSERS Plan.. 27

Schedule of the District's Pension Contributions to the MPSERS Plan 28

Schedule of the District's Proportionate Share of the Net OPEB Liability of the MPSERS Plan 29

Schedule of the District's OPEB Contributions to the MPSERS Plan 30

Notes to Required Supplementary Information Pension and OPEB Schedules..... 31

Other Supplementary Information

**Independent Auditors' 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***..... 32-33



WILLIS & JURASEK

CPAS AND CONSULTANTS

Independent Auditors' Report

Board of Education
Athens Area Schools
Athens, 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 Athens Area Schools, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 1, 2019, on our consideration of Athens Area Schools' internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Athens Area Schools' internal control over financial reporting and compliance.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

October 1, 2019

Athens Area Schools
Management's Discussion and Analysis
Year Ended June 30, 2019

Our discussion and analysis of Athens Area Schools' financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2019.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms, the current position of the School District's financial statements and other supplemental information that presents all the School District's revenues and expenditures by program for the General Fund, Food Service Fund, Debt Service Fund, and Capital Projects Funds.

Financial Highlights

The overall condition of all funds and instructional activities remains sound for the School District. All goals related to the financial activities have been met, and if revenue and expenditure patterns can be maintained, sufficient resources for next year will be available.

Total expenditures for all of our programs were \$6,035,087 for the year. Program revenues (charges for services, operating grants and contributions) totaled \$1,483,565, leaving a net unfunded cost for the year of \$4,551,522. The School District's property taxes, state aid, and other revenue sources were sufficient to cover this total unfunded cost.

The District has an overall negative net position due to the recording of net pension and OPEB liabilities in accordance with Governmental Accounting Standards Board (GASB) Statements No. 68, *Accounting and Financial Reporting for Pensions*, and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The purpose of these standards is to improve accounting and financial reporting for pension and OPEB liabilities. They established standards for measuring and recognizing pension and OPEB liabilities, expenses, and the related deferred inflows and outflows of resources. Implementation of these standards requires recording of the full unfunded portion of the District's plans administered through the Michigan Public Schools Employees' Retirement System (MPSERS).

Using This Annual Report

The School District's annual report consists of a series of financial statements that show information for the School District as a whole, its funds, and its fiduciary responsibilities. The Statement of Net Position and the Statement of Activities (pages 1 - 2), provide information about the activities of the School District as a whole and present a longer-term view of the School District's finances. Our fund financial statements start on page 3. Our governmental activities statements tell how we financed our services in the short-term, as well as what remains for future spending. Fund financial statements report the School District's operations in more detail than government-wide financial statements by providing information about the School District's most significant funds. The remaining statement provides information about activities for which the School District acts solely as an agent for the benefit of student groups.

Reporting the School District as a Whole

One of the most important questions asked about the School District is, "Is the School District as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. We prepared these statements to include all assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenue and expenses, regardless of when cash is received or paid.

These two statements report the School District's *net position* – the difference between assets and liabilities, as reported in the Statement of Net Position – as one way to measure the School District's financial health or *financial position*. Over time, *increases* and *decreases* in the School District's net

Athens Area Schools
Management's Discussion and Analysis
Year Ended June 30, 2019

position – as reported in the Statement of Activities – are indications of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses indicates the School District's *operating results*. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the School to assess the *overall health* of the School District.

Reporting the School District's Most Significant Funds

The School District's Fund Financial Statements, which begin on page 3, provide detailed information about the School District's most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes other funds to help it control and manage money for particular purposes (like the Food Service Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like the Capital Projects Fund and Debt Service Fund).

Governmental fund reporting focuses on showing how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. They are reported using an accounting method called *modified accrual* accounting, which measures cash and all 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 operations and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between *governmental activities* (reported in the Statement of Net Position and the Statement of Activities) and *governmental funds* in reconciliations on pages 4 and 6.

The School District as Trustee

The School District is the trustee, or agent, for its student activity funds. All of the School District's agent activities are reported in a separate Statement of Fiduciary Net Position – Agency Funds on page 7. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

The School District's net position was (\$2,794,364) at June 30, 2019. Of this amount, (\$8,464,292) was unrestricted. Restricted net position is reported separately to show legal constraints that limit the School District's ability to use those assets for day-to-day operations. On the following pages we focus our attention on the net position (TABLE 1) and changes in net position (TABLE 2) of the School District's governmental activities.

Athens Area Schools
Management's Discussion and Analysis
Year Ended June 30, 2019

The School District as a Whole (Continued)

TABLE 1 – Net Position

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets	\$ 2,775,896	\$ 2,592,106
Noncurrent Assets	<u>5,266,280</u>	<u>4,844,814</u>
Total Assets	<u>8,042,176</u>	<u>7,436,920</u>
Deferred Outflows	<u>3,168,705</u>	<u>1,831,616</u>
Liabilities		
Current Liabilities	994,850	925,982
Noncurrent Liabilities	<u>11,171,947</u>	<u>10,911,048</u>
Total Liabilities	<u>12,166,797</u>	<u>11,837,030</u>
Deferred Inflows	<u>1,838,448</u>	<u>839,468</u>
Net Position		
Net Investment in Capital Assets	5,006,280	4,336,831
Restricted	663,648	801,961
Unrestricted	<u>(8,464,292)</u>	<u>(8,546,748)</u>
Total Net Position	<u>\$ (2,794,364)</u>	<u>\$ (3,407,956)</u>

Athens Area Schools
Management's Discussion and Analysis
Year Ended June 30, 2019

The School District as a Whole (Continued)

TABLE 2 – Changes in Net Position

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Program Revenue		
Charges for Services	\$ 144,501	\$ 152,695
Operating Grants and Contributions	1,339,064	1,330,584
General Revenue		
Property Taxes-General Purposes	1,051,691	1,037,392
Property Taxes-Restricted	759,824	689,138
State and Federal School Aid	3,203,640	3,083,822
Miscellaneous	149,959	136,379
	<u>6,648,679</u>	<u>6,430,010</u>
Expenses		
Instruction	3,574,217	3,331,372
Support Services	1,740,761	1,872,345
Food Service	239,077	238,211
Community Services	5,290	8,954
Payments to Other Districts	-	62,073
Depreciation – Unallocated	444,664	357,062
Capital Outlay	20,891	156,485
Interest on Long-Term Debt	10,187	5,833
	<u>6,035,087</u>	<u>6,032,335</u>
Increase in Net Position	613,592	397,675
Beginning Net Position	<u>(3,407,956)</u>	<u>(3,805,631)</u>
Ending Net Position	<u>\$ (2,794,364)</u>	<u>\$ (3,407,956)</u>

As reported in the Statement of Activities on page 2, the cost of all of our governmental activities this year was \$6,035,087.

Athens Area Schools
Management's Discussion and Analysis
Year Ended June 30, 2019

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The School District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. During the fiscal year ended June 30, 2019, the School District amended the General Fund Budget one time.

General Fund

The actual revenue of the General Fund was \$5,645,022, above the original budget estimate of \$5,381,685, and below the final amended budget of \$5,671,147. The increase in revenue between the original and final budget was due to a slightly larger increase in State Aid per pupil, as well as an increase in local tax revenue. Actual revenues were right in line with the final amended budget figure.

The actual expenditures of the General Fund were \$5,416,884, above original budget estimate of \$5,365,246 and below the final amended budget of \$5,532,268. The differences between the actual expenditures and the original and final budgets were due to cost containment in all areas and grants not completely spent in the fiscal year. Even with inflation pressures and rising utility costs, we were still able to reduce our expenditures considerably from what was approved by the Board.

OTHER GOVERNMENTAL FUNDS OPERATING HIGHLIGHTS

Debt Service Fund

The Debt Service Fund experienced a net increase in fund balance of \$7,765 leaving a fund balance of \$12,605 as of June 30, 2019. Property tax revenue increased over the previous year by \$54,794 while expenditures increased over the previous year by \$1,177.

Food Service Fund

The Food Service Fund showed an increase in fund balance of \$15,528 for the year and a fund balance of \$30,585 as of June 30, 2019. Revenues increased from the previous year by \$19,160. Expenditures decreased from the previous year by \$888.

Capital Projects Funds

The Capital Projects Funds showed a decrease in fund balance of \$136,001 for the year and a fund balance of \$663,648. Revenue included property taxes for the 2016 Sinking Fund of \$621,934 and expenditures for both the 2016 Sinking Fund and the 2015 and 2018 Capital Projects Funds totaling \$757,935.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of fiscal year 2019, the School District had \$11,160,651 invested in land and buildings, furniture and equipment, and vehicles. We have estimated that these assets have depreciated by \$5,894,371 through June 30, 2019; therefore, we currently have a net book value of \$5,266,280.

Athens Area Schools
Management's Discussion and Analysis
Year Ended June 30, 2019

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital assets at year-end were as follows:

Land	\$ 109,800
Equipment and Vehicles	1,638,996
Buildings	9,411,855
Less: Accumulated Depreciation	<u>(5,894,371)</u>
 Total Capital Assets, Net of Depreciation	 <u>\$ 5,266,280</u>

Significant capital additions during the year included three school buses and renovations to the school buildings.

At June 30, 2019, the School District had \$260,000 in bonds and long-term notes outstanding, as shown below:

General Obligation Bonds	
2015 School Bus Bonds	\$ 110,000
2018 School Bus Bonds	<u>150,000</u>
 Total bonds and long-term notes	 <u>\$ 260,000</u>

During the year, the School District paid off the Energy Bonds with a final payment of \$110,000 and a capital lease with a final payment of \$17,983 in addition to the required payments on the school bus bonds above.

FACTORS BEARING ON THE DISTRICT'S FUTURE

We have been continuously improving the financial health of our District for the last several years. This has allowed us to reach a point where not only have all employees previous wage and salary levels been restored but we have been able to give teachers, paraprofessionals, and cooks pay increases. We are currently projecting fund equity in excess of nineteen percent for fiscal year 2020.

The key to this is that we have learned to live within our financial means. This simple lesson we have learned is, "You can't spend more than you're taking in." We cannot conduct business as usual in the face of declining revenues and increasing costs. The only responsible path is to keep expenditures under revenue.

We also continue to contract and share services with a number of other interests. Information technology (IT) services are contracted with Calhoun Intermediate School District's Department of Technology (CDOT), adding to the number of shared or contracted services which already include: financial services from Calhoun ISD, custodial services with DM Burr Custodial Services, special education out-of-district busing through a Calhoun Area Educators/Calhoun ISD consortium with Dean Transportation, substitute teacher services through Edustaff, an administrative position filled by Edustaff, boiler maintenance services contracted through Hunter-Prell, student and financial IT and fiber optic services through the Calhoun ISD consortia, study opportunities and curriculum materials as members of the Battle Creek Area Mathematics and Science Center and Calhoun Area Career Center, independently contracted with another local district's bus mechanic, and others.

Athens Area Schools
Management's Discussion and Analysis
Year Ended June 30, 2019

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

We are pleased that voters approved a bus bond proposal on the November 2014 ballot, which has allowed us to renew our fleet with six new buses over a period of four years. Newer buses have decreased operational expenses for maintenance and fuel (due to increased efficiency). Voters in August of 2016 passed a 3.39 sinking fund millage that will allow us to make substantial capital renovations to the District's infrastructure, further reducing the need to use General Fund dollars in those areas. This additional millage will allow the Board to keep its commitment to maintain the total debt millage for taxpayers at or under the current 4.5 mills.

Athens Area Schools remains committed to providing the highest quality education to the children of our community, in the safest environment, with fidelity and accountability to our voters and taxpayers.

CONTACTING THE SCHOOL DISTRICT FINANCIAL MANAGEMENT

This report is designed to give an overview of the financial conditions of the Athens Area Schools. If you have any questions about this report or need further information, please contact the Central Office at 4320 K Drive S, East Leroy, MI 49051; telephone (269) 729-5427.

Athens Area Schools
Statement of Net Position
June 30, 2019

	Governmental Activities
Assets:	
Cash and investments	\$ 1,822,424
Receivables	4,220
Due from other governmental units	905,173
Inventories	6,088
Prepaid expenses	37,991
Capital assets:	
Cost of capital assets	11,160,651
Less: accumulated depreciation	(5,894,371)
Net capital assets	5,266,280
Total assets	8,042,176
 Deferred Outflows of Resources:	
Pension related	2,764,027
OPEB related	404,678
Total deferred outflows of resources	3,168,705
 Liabilities:	
State aid anticipation note	300,000
Tax anticipation note	100,000
Accounts payable and accrued expenses	586,515
Unearned revenue	8,335
Long-term liabilities:	
Due within one year:	
Bonds, capital leases and contracts	130,000
Accrued interest	1,149
Due in more than one year:	
Bonds, capital leases and contracts	130,000
Compensated absences	123,325
Net pension liability	8,568,667
Net OPEB liability	2,218,806
Total liabilities	12,166,797
 Deferred Inflows of Resources:	
Pension related	1,199,950
OPEB related	638,498
Total deferred inflows of resources	1,838,448
 Net Position:	
Net investment in capital assets	5,006,280
Restricted for:	
Capital projects	663,648
Unrestricted	(8,464,292)
Total net position	\$ (2,794,364)

Athens Area Schools
Statement of Activities
Year Ended June 30, 2019

<u>Functions/Programs</u>	<u>Program Revenue</u>			<u>Governmental</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
		<u>Services</u>	<u>Grants and</u>	<u>Net (Expenses)</u>
			<u>Contributions</u>	<u>Revenues and</u>
				<u>Change in</u>
				<u>Net Position</u>
Primary Government				
Governmental activities				
Instruction	\$ 3,574,217	\$ -	\$ 1,151,670	\$ (2,422,547)
Support services	1,740,761	81,335	2,879	(1,656,547)
Food service activities	239,077	63,166	184,515	8,604
Community services	5,290	-	-	(5,290)
Interest on long-term debt	10,187	-	-	(10,187)
Capital outlay	20,891	-	-	(20,891)
Depreciation (unallocated)	444,664	-	-	(444,664)
Total governmental activities	<u>\$ 6,035,087</u>	<u>\$ 144,501</u>	<u>\$ 1,339,064</u>	<u>(4,551,522)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,051,691
Property taxes, levied for restricted purposes				759,824
State aid not restricted to specific purposes				3,203,640
Unrestricted investment earnings				16,307
Other				133,652
Total general revenues				<u>5,165,114</u>
Change in Net Position				613,592
Net Position - Beginning of Year				<u>(3,407,956)</u>
Net Position - End of Year				<u><u>\$ (2,794,364)</u></u>

Athens Area Schools
Balance Sheet
Governmental Funds
June 30, 2019

	<u>General Fund</u>	<u>Capital Projects Funds</u>	<u>Nonmajor</u>		<u>Total Governmental Funds</u>
			<u>Debt Service Fund</u>	<u>Food Service Fund</u>	
<u>Assets</u>					
Cash and investments	\$ 1,021,307	\$ 763,648	\$ 12,605	\$ 24,864	\$ 1,822,424
Due from other funds	-	-	-	1,701	1,701
Receivable from other governments	903,648	-	-	1,525	905,173
Other receivables	4,220	-	-	-	4,220
Inventories	-	-	-	6,088	6,088
Prepaid expenditures	37,991	-	-	-	37,991
Total assets	\$ 1,967,166	\$ 763,648	\$ 12,605	\$ 34,178	\$ 2,777,597
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 51,371	\$ -	\$ -	\$ 653	\$ 52,024
Due to other funds	1,701	-	-	-	1,701
Revenue anticipation notes	300,000	100,000	-	-	400,000
Unearned revenue	5,395	-	-	2,940	8,335
Salaries payable	527,533	-	-	-	527,533
Accrued expenditures	6,958	-	-	-	6,958
Total liabilities	892,958	100,000	-	3,593	996,551
Fund Balances:					
Nonspendable:					
Inventories	-	-	-	6,088	6,088
Prepaid expenditures	37,991	-	-	-	37,991
Restricted	-	663,648	12,605	24,497	700,750
Committed	60,000	-	-	-	60,000
Unassigned	976,217	-	-	-	976,217
Total fund balances	1,074,208	663,648	12,605	30,585	1,781,046
Total liabilities and fund balances	\$ 1,967,166	\$ 763,648	\$ 12,605	\$ 34,178	\$ 2,777,597

Athens Area Schools

Reconciliation of the Balance Sheet for Governmental Funds to the Statement of Net Position
June 30, 2019

Total Fund Balances - Governmental Funds \$ 1,781,046

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. 5,266,280

Long-term liabilities not due and payable in the current period and not reported in the funds:

Long-term debt payable	\$	(260,000)	
Accrued interest		(1,149)	
Compensated absences		(123,325)	
		(384,474)	(384,474)

The pension and OPEB liabilities and related deferred inflows and outflows are not due and payable in the current period and therefore are not reported in the funds.

Net pension liability		(8,568,667)	
Net OPEB liability		(2,218,806)	
Deferred outflows related to pensions		2,764,027	
Deferred outflows related to OPEB		404,678	
Deferred inflows related to pensions		(1,199,950)	
Deferred inflows related to OPEB		(638,498)	
		(9,457,216)	(9,457,216)

Total Net Position - Governmental Activities \$ (2,794,364)

Athens Area Schools
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2019

	<u>General Fund</u>	<u>Capital Projects Funds</u>	<u>Nonmajor</u>		<u>Total Governmental Funds</u>
			<u>Debt Service Fund</u>	<u>Food Service Fund</u>	
Revenues:					
Local sources	\$ 1,281,992	\$ 621,934	\$ 139,332	\$ 63,647	\$ 2,106,905
State sources	3,917,325	-	-	9,686	3,927,011
Federal sources	193,193	-	-	174,829	368,022
Interdistrict and other	252,512	-	-	-	252,512
Total revenues	<u>5,645,022</u>	<u>621,934</u>	<u>139,332</u>	<u>248,162</u>	<u>6,654,450</u>
Expenditures:					
Instruction	3,446,487	-	-	-	3,446,487
Support services	1,837,124	-	-	-	1,837,124
Food service activities	-	-	-	233,148	233,148
Community services	5,290	-	-	-	5,290
Debt service:					
Principal	127,983	-	120,000	-	247,983
Interest and other charges	-	-	11,567	-	11,567
Capital outlay	-	757,935	-	-	757,935
Total expenditures	<u>5,416,884</u>	<u>757,935</u>	<u>131,567</u>	<u>233,148</u>	<u>6,539,534</u>
Revenues Over (Under) Expenditures	<u>228,138</u>	<u>(136,001)</u>	<u>7,765</u>	<u>15,014</u>	<u>114,916</u>
Other Financing Sources (Uses):					
Transfers in	-	-	-	514	514
Transfers out	(514)	-	-	-	(514)
Total other financing sources (uses)	<u>(514)</u>	<u>-</u>	<u>-</u>	<u>514</u>	<u>-</u>
Net Changes in Fund Balance	<u>227,624</u>	<u>(136,001)</u>	<u>7,765</u>	<u>15,528</u>	<u>114,916</u>
Fund Balances - Beginning of Year	<u>846,584</u>	<u>799,649</u>	<u>4,840</u>	<u>15,057</u>	<u>1,666,130</u>
Fund Balances - End of Year	<u>\$ 1,074,208</u>	<u>\$ 663,648</u>	<u>\$ 12,605</u>	<u>\$ 30,585</u>	<u>\$ 1,781,046</u>

Athens Area Schools

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
Year Ended June 30, 2019

Net Change in Fund Balances - Total Governmental Funds \$ 114,916

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

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

The amount by which depreciation \$444,664 was exceeded by capital expenditures \$866,130 in the current period. 421,466

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded proceeds. 247,983

Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Accrued interest 1,380
Compensated absences (5,331)

Governmental funds report the required pension/OPEB contributions for the fiscal year June 30, 2019 as an expenditure. The Statement of Activities reports the fully accrued pension/OPEB expense based upon a September year-end to coincide with the State of Michigan's fiscal year.

Changes in pension related liabilities and deferrals \$ (276,008)
Changes in OPEB related liabilities and deferrals 109,186

(166,822)

Change in Net Position of Governmental Activities **\$ 613,592**

Athens Area Schools
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2019

	<u>Agency Fund</u>
Assets:	
Cash and cash equivalents	\$ 114,895
Total assets	<u>\$ 114,895</u>
Liabilities:	
Due to student groups	\$ 114,895
	<u>\$ 114,895</u>

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

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

Reporting Entity

The School District is governed by an elected seven-member 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. Based on the application of the criteria, the District does not contain any component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide and Fund Financial Statements

District-Wide 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 non-fiduciary activities of the primary government. 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 district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Position presents all governmental activities on a consolidated basis. The Statement of Net Position reports all assets and liabilities including those of a long-term nature. The net difference is reported as net position. Net position is categorized as net investment in capital assets, restricted net position, and unrestricted net position. It is the District’s policy to allocate resource outlays first to restricted net position with the remainder allocated to unrestricted net position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment, 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 not properly included among program revenues are reported instead as general revenue. 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.

Fund Financial Statements - Separate financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements with nonmajor governmental funds aggregated into a single column.

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

District-Wide and Fund Financial Statements (Continued)

Fund-Based Statements (Continued) – 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 revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, severance pay, 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. Expenditure reimbursing grants are recognized when the qualifying expenditures have been incurred, eligibility requirements have been met, and receipt of monies is expected within the current availability period (60 days post year-end). All other revenue items are considered to be available only when cash is received by the government.

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

Capital Projects Funds – This type of fund is used to record bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for major remodeling and repairs. The District maintains three capital project funds, the 2015 Capital Projects Fund, the 2016 Sinking Fund, which has restricted property taxes as its source of revenue, and the 2018 Capital Projects Fund. For the 2015 and 2018 Capital Projects Fund, the School District has complied with the applicable provisions of Section 1351a of the Revised School Code. For the 2016 Sinking Fund, the School District has complied with the applicable provisions of Section 1212 of the Revised School Code.

Additionally, the government reports the following fund types:

Debt Service Funds – Debt Funds are used to record tax, interest, and other revenue for payment of principal and other expenditures thereof related to bond issues. The District maintains one debt fund to record all activity related to the 2015 and 2018 School Bus Bond Funds.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Special Revenue Fund maintained by the District is the Food Service Fund.

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

District-Wide and Fund Financial Statements (Continued)

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the District in a trustee capacity (trust funds) or as an agent (agency funds). Fiduciary Fund net position and results of operations are not included in the district-wide statements.

Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school-related purposes. The funds are segregated and held for the students and parents.

Revenues, Assets, Liabilities, and Net Position or Equity

State Revenue - The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a State-wide formula. The foundation allowance is funded from a combination of State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2019, the foundation allowance was based on pupil membership counts taken in February 2018 and October 2018.

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

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain 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 unearned revenue. Other categorical funding is recognized when the appropriation is received.

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

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

General Fund – Non-principal residence	18.0000
General Fund – Commercial personal property	6.0000
Debt Fund – All taxable values	0.7900
Capital Projects Funds – All taxable values	3.5000

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenues, Assets, Liabilities, and Net Position or Equity (Continued)

Property Taxes (Continued) - Tax abatements provided to property tax payers, if any, were not significant, and thus no disclosure was deemed required in accordance with GASB Statement No. 77, *Tax Abatement Disclosures*.

Cash and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The District reports its investments in accordance with GASB professional standards. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

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

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.” Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

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 are 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. The government defines capital assets as assets with an initial individual cost of \$5,000 or greater and an estimated useful life in excess of one year. 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.

Fixed assets are depreciated using the straight-line method over the following useful lives:

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

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenues, Assets, Liabilities, and Net Position or Equity (Continued)

Compensated Absences - In the district-wide financial statements, the District reports a liability for compensated absences which consists of unpaid, accumulated 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. Bond premiums and discounts are reported as a deferred inflow or outflow, separate from liabilities, and are amortized over the life of the bond using the straight-line method, which approximates the effective interest method. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources – In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District currently reports deferred outflows of resources related to the net pension liability and the net OPEB liability. The District also reports deferred outflows of resources for pension and OPEB contributions made subsequent to the plan measurement date which will be recognized in the following year.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District currently reports deferred inflows of resources related to its net pension liability and net OPEB liability. These future resources will be amortized and recognized over a time period established by the actuary and relate to differences between actuarial estimates and actual results.

Defined Benefit Pension Plan – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value. See Note 11 for detailed information.

Postemployment Benefits Other Than Pensions – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Related investments are reported at fair value. See Note 11 for detailed information.

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenues, Assets, Liabilities, and Net Position or Equity (Continued)

Fund Balance – The District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this guidance, fund balances of governmental funds are categorized according to five defined categories of fund balance. These categories consist of *nonspendable* amounts which are not in spendable form or are legally or contractually required to be maintained intact; *restricted* amounts that are constrained for specific purposes set by external parties or law; *committed* amounts that are constraints set by the highest decision making authority (the School Board) through adoption of a resolution and may only be removed by the School Board through a rescindment resolution; *assigned* amounts that have an intended purpose but require no formal specific action; and *unassigned* amounts which are the residual of the other categories and have no specific purpose.

It is the District's policy to generally use fund balance in order according to the hierarchy of fund balance categories, from restricted down to unassigned.

Use of Estimates - The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and 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.

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any, for the General Fund, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end.

Athens Area Schools
Notes to Financial Statements

Note 3 – Cash and Investments

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and investments	\$ 1,822,424	\$ 114,895	\$ 1,937,319

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

Deposits (checking and savings accounts, certificates of deposits)	\$ 1,937,219
Petty cash	100
Total	\$ 1,937,319

Investment and Deposit Risk – The District's cash and investments are subject to several types of risk, as noted below.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, approximately \$1,762,000 of the District's bank balance of \$2,012,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments – Custodial credit risk of investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have an investment policy for custodial credit risk.

Interest Rate Risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The District's investment policy does not restrict investment maturities beyond State law.

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The District's investment policy does not have specific limits in excess of State law on investment credit risk.

Concentration of Credit Risk – The District's investment policy does not limit investments with individual issuers.

Foreign Currency Risk – The District does not invest in foreign currency and does not maintain a policy regarding foreign currency risk.

Note 4 – Receivables

Receivables at year-end were approximately \$909,000 and consist mainly of amounts due from the State of Michigan and reimbursement for federal grants.

Athens Area Schools
Notes to Financial Statements

Note 5 – Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Year-End Balance</u>
Assets not being depreciated:				
Land	\$ 109,800	\$ -	\$ -	\$ 109,800
Capital assets being depreciated:				
Buildings and improvements	8,908,785	503,070	-	9,411,855
Buses and other vehicles	808,108	254,573	-	1,062,681
Furniture and equipment	467,828	108,487	-	576,315
Subtotal	<u>10,184,721</u>	<u>866,130</u>	<u>-</u>	<u>11,050,851</u>
Accumulated depreciation:				
Buildings and improvements	4,724,753	305,523	-	5,030,276
Buses and other vehicles	457,004	75,340	-	532,344
Furniture and equipment	267,950	63,801	-	331,751
Subtotal	<u>5,449,707</u>	<u>444,664</u>	<u>-</u>	<u>5,894,371</u>
Net capital assets being depreciated	<u>4,735,014</u>	<u>421,466</u>	<u>-</u>	<u>5,156,480</u>
Net capital assets	<u>\$ 4,844,814</u>	<u>\$ 421,466</u>	<u>\$ -</u>	<u>\$ 5,266,280</u>

Depreciation expense, which totaled \$444,664, was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

Note 6 – Notes Payable

For the fiscal year end June 30, 2019, the School District issued State Aid Anticipation Notes to allow for needed cash flow prior to the receipt of State Aid in the amount of \$700,000. The State Aid Anticipation Notes are secured by the full faith and credit of the School District as well as pledged State Aid. One of the notes required payments to an irrevocable set-aside account of \$400,000 by current year-end. At year-end, the outstanding balance totaled \$300,000 as follows:

<u>Note</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
2018A-1	\$ 100,000	1.750%	8/20/2019
2018A-2	200,000	2.500%	8/20/2019

Activity for the year is summarized below:

<u>Balance June 30, 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2019</u>
<u>\$ 300,000</u>	<u>\$ 700,000</u>	<u>\$ 700,000</u>	<u>\$ 300,000</u>

Athens Area Schools
Notes to Financial Statements

Note 6 – Notes Payable (Continued)

The District has also approved the issuance of a State Aid anticipation note for the 2019-2020 school year in the amounts of \$500,000 with an interest rates of 1.30% and with a maturity date of August 20, 2020. Under the agreement, the District will begin making payments on the \$500,000 note beginning January 2020.

On July 16, 2018, the District issued a Capital Improvement Tax Anticipation Note of \$100,000 to provide cash for building and site improvements prior to receipt of sinking fund property taxes to cover those expenditures. Tax anticipation notes of this nature are allowed under the provisions of Act 34, Public Acts of Michigan, 2001, as amended. Interest on the note was 2.49%. The balance on this note was \$100,000 as of June 30, 2019 and the note was repaid at maturity on July 16, 2019.

Note 7 – Interfund Receivables, Payables and Transfers

The District reports interfund balances between some of its funds. The sum of all balances presented in the table below agrees with the sum of interfund balances presented in the Balance Sheet for governmental funds. These interfund balances resulted primarily 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.

Due To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Food Service Fund	General Fund	\$ <u>1,701</u>

A transfer of \$514 was made from the General Fund to the Food Service Fund to cover receivables considered uncollectible.

Note 8 – Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment as well as to account for compensated absences payable. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Long-term obligations can be summarized as follows.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
General obligation bonds	\$ 490,000	\$ -	\$ 230,000	\$ 260,000	\$ 130,000
Installment purchases:					
Leases	17,983	-	17,983	-	-
Compensated absences	117,994	5,331	-	123,325	-
Total governmental activities	<u>\$ 625,977</u>	<u>\$ 5,331</u>	<u>\$ 247,983</u>	<u>\$ 383,325</u>	<u>\$ 130,000</u>

Athens Area Schools
Notes to Financial Statements

Note 8 – Long-Term Debt (Continued)

Annual debt service requirements to maturity on the above governmental obligations (excluding compensated absences) are as follows:

	Governmental Activities		
	Principal	Interest	Total
2020	\$ 130,000	\$ 6,891	\$ 136,891
2021	130,000	3,499	133,499
	\$ 260,000	\$ 10,390	\$ 270,390

At June 30, 2019, long-term debt consisted of the following:

2015 School Bus Bonds, annual installments of \$50,000 to \$125,000 plus interest at a rate ranging from 1.100% to 2.150% through May 1, 2021.	\$ 110,000
2018 School Bus Bonds, annual installments of \$70,000 to \$75,000 plus interest at a rate of 3.090% through May 1, 2021.	150,000
	\$ 260,000

Note 9 – Committed Fund Balance

Portions of fund equity are segregated for specific future use and are, therefore, not available for future general appropriations or expenditure. Fund balance commitments represent those amounts that are segregated by Board directive for future use as follows:

General Fund

Committed:	
School nurse	\$ 20,000
School resource officer	20,000
Curriculum	20,000
Total committed	\$ 60,000

Note 10 – Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injury as well as medical, life and workers' compensation benefits provided to employees. School Board liability, errors and omissions, student accident, and all health and life insurances have been purchased through a combination of self-insurance programs and commercial insurance policies.

The School District is a member of the School Employees Group (SEG), Self-Insured Workers Disability Compensation Fund (the "Fund"), established pursuant to the provisions of Act 138 of Michigan Public Acts of 1982, which authorizes contracts between school districts to form a self-insurance fund, and to prescribe conditions to the performance of these contracts.

The School District pays quarterly premiums to the Fund for workers' disability compensation coverage. The agreement with the Fund provides that the Fund will be self-sustaining through member premiums and will purchase both specific and aggregate insurance to the limits determined necessary by the Fund

Athens Area Schools
Notes to Financial Statements

management.

Note 10 – Risk Management (Continued)

At June 30, 2019, there were no claims which exceeded insurance coverage, nor have any settled claims during the past three years exceeded insurance coverage. The School District did not have any significant reduction in insurance coverage from previous years.

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions

Organization

Pension/OPEB Plan Description – The District participates in the Michigan Public School Employees' Retirement System ("MPERS" or "the System"), a State-wide, cost-sharing, multiple-employer defined benefit public employee retirement plan governed by the State of Michigan. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees and their beneficiaries, and covers substantially all employees of the District. There are currently approximately 700 participating employers in the System which meets the definition of a qualified pension trust fund under Section 401(a) of the Internal Revenue Code. In addition, the System maintains a health plan which provides postemployment healthcare benefits to all eligible retirees as an elective option including health, prescription drug, dental, and vision coverage.

The System was originally created under Public Act 136 of 1945, recodified, and currently operates under the provisions of Public Act 300 of 1980, as amended. Section 25 of this Act establishes a governing board and its authority to promulgate or amend the provisions of the System. The board consists of twelve members – eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System is administered by the Office of Retirement Services 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 for the System.

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report and are available on the ORS website at www.michigan.gov/orsschools. Information provided in this report includes financial data, actuarial assumptions data, and detailed information about the pension plan and OPEB plan fiduciary net positions.

Pension Benefits Provided – 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. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. 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.

A DB plan member or Pension Plus plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former member's right to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Athens Area Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Organization (Continued)

OPEB Benefits Provided – 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 healthcare 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 OPEB, 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. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Public Act 300 of 2012 granted all active members of the MPSERS, who earned service credit in the twelve 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 were deposited into their 401(k) account.

Pension/OPEB Plan Contributions – Public Act 300 of 1980, as amended, requires contributions from both the participating employers and the active plan members. The District, as a participating employer, is required to contribute amounts necessary to finance the coverage of pension and OPEB benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees (plan members) during the year, with an additional amount paid in to finance a portion of the unfunded accrued liability.

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

Athens Area Schools
Notes to Financial Statements

Note 11– Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Organization (Continued)

Pension Plan Contributions – The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2018:

<u>Benefit Type</u>	<u>Member Rates</u>	<u>Employer Rates</u>
Basic	0.0% - 4.0%	17.89%
Member Investment Plan (MIP)	3.0% - 7.0%	17.89%
Pension Plus	3.0% - 6.4%	16.61%
Pension Plus 2	6.2%	19.74%
Defined Contribution	0.0%	13.54%

The District's required and actual contributions to the pension plan for the year ended September 30, 2018 were \$776,156. The District's required and actual pension contributions include an allocation of \$363,173 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended September 30, 2018.

OPEB Contributions – OPEB contribution rates in effect for the year ended September 30, 2018 were 3% for members under the Premium Subsidy option with a corresponding 6.44% contribution from employers and 0% for members under the Personal Healthcare Fund with a corresponding 6.13% employer contribution.

Required contributions to the OPEB plan from the District were \$181,184 for the year ended September 30, 2018. The District's required and actual OPEB contributions include an allocation of \$0 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended September 30, 2018.

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

Proportionate Share of District's Net Pension Liability - At June 30, 2019, the District reported a liability of \$8,568,667 for its proportionate share of the MPSERS 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 rolled forward from September 30, 2017. The District's proportionate share of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the System during the measurement period by the percent of statutorily required pension contributions from all applicable employers during the measurement period. At September 30, 2018, the District's proportionate share was .02850350 percent, a decrease of .00104550 percent from its proportion measured as of September 30, 2017.

Pension Expense - For the plan year ended June 30, 2019, the District's pension expense was \$689,070, exclusive of payments to fund the MPSERS UAAL stabilization rate.

Proportionate Share of District's Net OPEB Liability - At June 30, 2019, the District reported a liability of \$2,218,806 for its proportionate share of the MPSERS 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 rolled forward from September 30, 2017. The District's proportionate share of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the System during the measurement period by the percent of statutorily required OPEB contributions from all applicable employers during the measurement period.

Athens Area Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

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

Proportionate Share of District’s Net OPEB Liability (Continued) - At September 30, 2018, the District’s proportionate share was .02791319 percent, a decrease of .00173108 percent from its proportion measured as of September 30, 2017.

OPEB Expense - For the plan year ended June 30, 2019, the District’s OPEB expense was \$77,591 exclusive of payments to fund the MPSERS UAAL stabilization rate.

Deferred Outflows and Deferred Inflows - At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>Pension</u>	<u>OPEB</u>	<u>Pension</u>	<u>OPEB</u>
Difference between expected and actual experience	\$ 39,760	\$ -	\$ 62,267	\$ 412,977
Changes of assumptions	1,984,496	234,973	-	-
Net difference between projected and actual earnings on pension/OPEB plan investments	-	-	585,879	85,274
Changes in proportion and differences between the School District’s contributions and its proportionate share of contributions	51,947	-	242,996	140,247
School District contributions subsequent to the measurement date	687,824	169,705	308,808	-
Total	<u>\$2,764,027</u>	<u>\$404,678</u>	<u>\$1,199,950</u>	<u>\$638,498</u>

\$687,824 reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

\$169,705 reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020.

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

<u>Year Ended June 30</u>	<u>Pension</u>	<u>OPEB</u>
2020	\$ 528,373	\$ (95,737)
2021	352,186	(95,737)
2022	220,789	(95,737)
2023	83,713	(77,816)
2024	-	(38,498)

Athens Area Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

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

Payables to the Pension/OPEB Plan - The District reported an accrued pension/OPEB plan payable at June 30, 2019 of \$76,291. This amount represents employee withholdings and the employer amount payable for wages earned at June 30, 2019 but not yet paid.

Actuarial Assumptions

Actuarial Valuations and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

A summary of actuarial assumptions as of the latest actuarial valuation follows:

Valuation date	September 30, 2017
Actuarial cost method	Entry age, normal
Wage inflation rate	2.75%
Investment rate of return:	
MIP and Basic plans	7.05%
Pension Plus Plan	7.00%
Pension Plus 2 Plan	6.00%
OPEB	7.15%
Projected salary increases	2.75 – 11.55%, including wage inflation at 2.75%
Healthcare cost trend rate	7.50% Year 1 graded to 3.00% Year 12
Cost of living pension adjustments	3.0 % annual non-compounded for MIP members
Mortality: 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 Members:	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Other Assumptions (OPEB):	
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 coverages continuing after the retiree's death.
Coverage Election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Additional assumption information includes the following:

- 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 annual pension and OPEB valuations beginning with the September 30, 2017 valuation. The total pension/OPEB liability as of September 30, 2018 is based on the results of an actuarial valuation date of September 30, 2017, and rolled forward using generally accepted actuarial procedures, including the experience study.

Athens Area Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years – 4.5304 for pension plan employers and 5.6018 for OPEB plan employers.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2018 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Rate of Return on Plan Assets – The long-term expected rate of return on pension/OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension/OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension/OPEB plan’s target asset allocation as of September 30, 2018, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic equity pools	28.0%	5.7%
Private equity pools	18.0%	9.2%
International equity 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	<u>2.0%</u>	0.0%
Total	<u>100.0%</u>	

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

Rate of Return – For the fiscal year ended September 30, 2018, the annual money-weighted rate of return on pension/OPEB plan investments, net of pension/OPEB plan investment expense, was 11.11% and 10.75%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate - Discount rates of 7.05% and 7.15% were used to measure the total pension and OPEB liabilities, respectively (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). These discount rates were based on the long-term expected rates of return on pension and OPEB plan investments of 7.05% and 7.15%, respectively (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). The projection of cash flows used to determine these discount rates assumed that plan member contributions will be made at the current contribution rates and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on these assumptions, the pension/OPEB plans’ 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/OPEB plan investments was applied to all periods of projected benefits payments to determine the total pension/OPEB liabilities.

Athens Area Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

Subsequent Event – Discount Rate – Dedicated Gains Policy

The Department of Technology, Management, and Budget and the MPSERS Retirement Board adopted a dedicated gains policy to lower the discount rate in years where investment returns exceed the current assumption based on a schedule determined by the plan actuary. In 2018, excess investment gains were sufficient to reduce the discount rate to 6.80% from 7.05% for the MPSERS Basic and MIP pension plans, and 7.00% for the MPSERS Plus plan. Dedicated gains were sufficient to reduce the MPSERS OPEB plan discount rate to 6.95% from 7.15%. The new discount rates were used in the pension and OPEB actuarial valuations as of September 30, 2018. These changes will impact the fiscal year 2019 collective schedules of pension and OPEB amounts; however, the dollar value of this impact cannot be determined at this time.

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 discount rate of 7.05% (7.00% for the Hybrid Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher:

1% Decrease	Current Single Discount Rate Assumption	1% Increase
<u>6.05% / 6.00% / 5.00%</u>	<u>7.05% / 7.00% / 6.00%</u>	<u>8.05% / 8.00% / 7.00%</u>
<u>\$11,249,998</u>	<u>\$8,568,667</u>	<u>\$6,340,917</u>

*Discount rates listed in the following order: Basic and Member Investment Plan (MIP), Pension Plus, and Pension Plus 2.

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 District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher:

1% Decrease	Current Discount Rate	1% Increase
<u>6.15%</u>	<u>7.15%</u>	<u>8.15%</u>
<u>\$2,663,631</u>	<u>\$2,218,806</u>	<u>\$1,844,653</u>

Athens Area Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate - The following presents the School District's proportionate share of the net OPEB liability calculated using the assumed trend rates, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is one percentage point lower or one percentage point higher:

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
<u>\$1,824,944</u>	<u>\$2,218,806</u>	<u>\$2,670,647</u>

Note 12 – Federal and State Grants

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Note 13 – Upcoming Accounting and Reporting Changes

GASB has issued Statement No. 84, *Fiduciary Activities*, to improve accounting and financial reporting over fiduciary activities. The Statement establishes criteria for identifying fiduciary activities and whether these identified fiduciary activities should be reported in a separate fiduciary fund in the basic financial statements. The Statement aims to enhance consistency and comparability for assessing government accountability and stewardship over fiduciary activities. Statement No. 84 will be effective for the District's fiscal year ending June 30, 2020.

Statement No. 87, *Leases*, was issued by the Governmental Accounting Standards Board to increase the usefulness of government financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. The Statement also addresses standards for note disclosures to include information regarding the timing, significance, and purpose of a government's leasing arrangements. Statement No. 87 will be effective for the District's fiscal year ending June 30, 2021.

Required Supplementary Information

Athens Area Schools
 Budgetary Comparison Schedule - General Fund
 Year Ended June 30, 2019

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Local sources	\$ 1,214,704	\$ 1,277,144	\$ 1,281,992
State sources	3,736,150	3,913,741	3,917,325
Federal sources	175,632	231,071	193,193
Interdistrict and other	255,199	249,191	252,512
Total revenues	5,381,685	5,671,147	5,645,022
Expenditures:			
Instruction:			
Basic programs	2,619,216	2,729,701	2,696,488
Added needs	686,463	783,813	749,999
Support services:			
Pupil	105,075	44,630	40,165
Instructional staff	83,747	79,662	75,552
General administration	77,770	70,957	69,106
School administration	317,147	322,196	317,661
Business	157,767	150,992	145,923
Operation & maintenance	496,132	508,555	498,138
Pupil transportation	383,421	367,133	349,538
Central services	128,321	198,244	197,494
Athletic activities	164,687	147,635	143,547
Community services:			
Community activities	-	-	4,477
Other	-	750	813
Payments to other public schools	7,500	-	-
Debt service:			
Principal and interest	63,000	128,000	127,983
Capital outlay	75,000	-	-
Total expenditures	5,365,246	5,532,268	5,416,884
Revenues Over (Under) Expenditures	16,439	138,879	228,138
Other Financing Sources (Uses):			
Transfers in	8,000	-	-
Transfers out	(1,000)	(1,000)	(514)
Total other financing sources (uses)	7,000	(1,000)	(514)
Net Changes in Fund Balances	23,439	137,879	227,624
Fund Balances - Beginning of Year	846,584	846,584	846,584
Fund Balances - End of Year	\$ 870,023	\$ 984,463	\$ 1,074,208

Athens Area Schools

Schedule of the District's Proportionate Share of the Net Pension Liability of the MPSERS Plan
Last Five Fiscal Years (Amounts Determined Each Year as of September 30)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of net pension liability (%)	<u>0.028503500%</u>	<u>0.029549000%</u>	<u>0.029666080%</u>	<u>0.029370350%</u>	<u>0.028680000%</u>
District's proportionate share of net pension liability	<u>\$ 8,568,667</u>	<u>\$ 7,657,402</u>	<u>\$ 7,401,444</u>	<u>\$ 7,173,716</u>	<u>\$ 6,317,199</u>
District's covered payroll	<u>\$ 2,379,661</u>	<u>\$ 2,463,933</u>	<u>\$ 2,552,656</u>	<u>\$ 2,497,117</u>	<u>\$ 2,520,799</u>
District's proportionate share of net pension liability as a percentage of its covered payroll	<u>360.08%</u>	<u>310.78%</u>	<u>289.95%</u>	<u>287.28%</u>	<u>250.60%</u>
Plan fiduciary net position as a percentage of total pension liability	<u>62.36%</u>	<u>64.21%</u>	<u>63.27%</u>	<u>63.17%</u>	<u>66.20%</u>

Athens Area Schools

Schedule of the District's Pension Contributions to the MPSERS Plan
Last Five Fiscal Years (Amounts Determined Each Year as of June 30)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required pension contributions	\$ 739,336	\$ 703,243	\$ 691,857	\$ 661,526	\$ 554,197
Contributions in relation to statutorily required contributions	<u>739,336</u>	<u>703,243</u>	<u>691,857</u>	<u>661,526</u>	<u>554,197</u>
Contribution deficiency (excess)	<u>\$ -</u>				
District's employee payroll	<u>\$ 2,431,578</u>	<u>\$ 2,358,697</u>	<u>\$ 2,636,189</u>	<u>\$ 2,444,226</u>	<u>\$ 2,521,503</u>
Contributions as a percentage of covered-employee payroll	<u>30.41%</u>	<u>29.81%</u>	<u>26.24%</u>	<u>27.06%</u>	<u>21.98%</u>

Athens Area Schools

Schedule of the District's Proportionate Share of the Net OPEB Liability of the MPSERS Plan
Last Two Fiscal Years (Amounts Determined as of September 30)

	<u>2018</u>	<u>2017</u>
District's proportion of net OPEB liability (%)	<u>0.02791319%</u>	<u>0.02964427%</u>
District's proportionate share of net OPEB liability	<u>\$ 2,218,806</u>	<u>\$ 2,625,140</u>
District's covered payroll	<u>\$ 2,379,661</u>	<u>\$ 2,463,933</u>
District's proportionate share of net OPEB liability as a percentage of its covered payroll	<u>93.24%</u>	<u>106.54%</u>
Plan fiduciary net position as a percentage of total OPEB liability	<u>42.95%</u>	<u>36.39%</u>

Athens Area Schools

Schedule of the District's OPEB Contributions to the MPSERS Plan
Last Two Fiscal Years (Amounts Determined as of June 30)

	<u>2019</u>	<u>2018</u>
Statutorily required OPEB contributions	\$ 193,988	\$ 188,756
OPEB contributions in relation to statutorily required contributions	<u>193,988</u>	<u>188,756</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll (OPEB)	<u>\$ 2,431,578</u>	<u>\$ 2,358,697</u>
OPEB contributions as a percentage of covered payroll	<u>7.98%</u>	<u>8.00%</u>

Athens Area Schools

Notes to Required Supplementary Information Pension and OPEB Schedules
Year Ended June 30, 2019

Changes of Benefit Terms: There were no changes of benefit terms in fiscal year 2018.

Changes of Assumptions: For the State's fiscal year ended September 30, 2018:

The actuarial assumption regarding the wage inflation rate changed from 3.5% to 2.75%.

The actuarial assumption regarding the investment rate of return for MIP and Basic plans changed from 7.50% to 7.05%, and for the OPEB plan changed from 7.50% to 7.05%.

The projected salary increases were adjusted to 2.75 - 11.55%, down from the prior year rates of 3.50 - 12.30%.

The healthcare cost trend rate was 7.5% Year 1 graded to 3.00% Year 12, a change in the graded Year 12 from 3.5% in the prior year.

Mortality tables used were updated to the RP-2014 Male and Female Healthy Annuitant Mortality Tables.

The recognition period for liabilities, an average of the expected remaining service lives of all employees, changed to 4.5304 from 4.5188 for pension plan employers and to 5.6018 from 5.4744 for OPEB plan employers.



WILLIS & JURASEK

CPAS AND CONSULTANTS

**Independent Auditors' 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***

Board of Education
Athens Area Schools
Athens, Michigan

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

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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
Athens Area Schools
Athens, Michigan

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Athens Area Schools' financial statements are free of 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 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

October 1, 2019



WILLIS & JURASEK

CPAS AND CONSULTANTS

October 1, 2019

To the Board of Education
Athens Area Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Athens Area Schools for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the *Uniform Guidance*), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 1, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Athens Area Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management has estimated the value of capitalized assets and the related accumulated depreciation. Much of the estimate of fixed asset balances was established based upon an appraisal performed in a prior year. The corresponding depreciation is based on estimated lives and use of those respective assets. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statements contain estimates for the net pension liability and the net OPEB liability and related deferred inflows and deferred outflows of resources. This information has been provided by ORS to all school districts participating in the MPSERS program. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Management has estimated the liability for employee compensated absences. We have evaluated the key factors and assumptions used to develop the liability for compensated absences in determining that it is reasonable in relation the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

To the Board of Education
Athens Area Schools

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as per the auditors' report.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, Budgetary Comparison Schedule, and the schedules related to the net pension liability and the net OPEB liability, and the related notes, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

To the Board of Education
Athens Area Schools

Recommendations

As a result of our audit, we offer the following comments/recommendations:

- We recommend continuing to give consideration to internal controls over fiduciary accounts and to prepare for implementation of GASB Statement No. 84, *Fiduciary Activities*.

Restriction on Use

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

Very truly yours,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.