Public Schools of the City of Muskegon

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2019

Public Schools of the City of Muskegon

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Public Schools of the City of Muskegon
Muskegon, 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 the Public Schools of the City of Muskegon (the School District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 the Public Schools of the City of Muskegon, 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 pension and OPEB information on pages 4 through 10 and 45 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Public Schools of the City of Muskegon's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2019 on our consideration of the Public Schools of the City of Muskegon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

Other Reporting Required by *Government Auditing Standards*—Continued

The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Public Schools of the City of Muskegon's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Public Schools of the City of Muskegon's internal control over financial reporting and compliance.

Brickley DeLong, P.C.

Muskegon, Michigan
October 10, 2019

The Public Schools of the City of Muskegon
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

Management's Discussion and Analysis of the Public Schools of the City of Muskegon's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to provide, in layman's terms, a look at past performance and current financial position of the District. Readers must also review the financial statements and notes to the financial statements to enhance their understanding of the District's financial performance.

This information is required by Governmental Accounting Standard Board's Statement No. 34 (GASB 34). GASB 34 requires the presentation of two basic types of financial statements; namely, District-wide Financial Statements and Fund Financial Statements.

Overview of the Financial Statements

This annual report consists of five parts: (1) the independent auditor's report, (2) management's discussion and analysis (this section), (3) the basic financial statements, (4) required supplementary information and (5) other supplemental information. The financial statements include notes that explain some of the information in the statements by providing detailed data. These statements are followed by a section of required supplementary information that further explains and supports the financial statements, utilizing a comparison to the District's budget for the year. Additionally, the basic financial statements also include two kinds of statements that present different views of the District.

District-wide Financial Statements

The district-wide financial statements are full accrual basis statements that provide information about the District's overall financial status. They are used to help determine whether or not the District is better off, or worse off, as a result of the year's activities. The Statement of Net Position reports all of the District's assets, deferred outflows of resources, deferred inflows of resources, and liabilities, both short-term and long-term, whether they are "currently available" or not. Capital assets and long-term obligations of the District are reported in this statement. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

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

- Over time, increases or decreases in net position are an indicator of whether the District's financial position is improving or deteriorating.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base, the quality of the education provided, and the condition of the District's buildings.

In district-wide statements, the District's activities are classified as governmental activities. This includes most of the District's basic services, such as regular and special education, food service, athletics, transportation, and administration. Property taxes and state aid finance most of these services.

Fund Financial Statements

The fund financial statements focus on individual parts of the District, while reporting the District's operations in more detail than the district-wide statements. The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they normally expect to be paid with current financial resources.

Fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's *Accounting Manual*. In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: special revenue funds for Food Service and Technology as well as debt service funds, capital project funds, and fiduciary funds for student group and trust activities.

In fund financial statements, capital asset purchases are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future long-term debt obligations are not recorded.

Financial Analysis of the District as a Whole

The net position of the District at June 30, 2019 amounted to a deficit of approximately $31.3 million. This chart shows a condensed breakdown of the net position and compares it to the June 30, 2018 net position, which amounted to ($32.5) million. Under Government Accounting standards, districts are required to report our portion of the unfunded liability for the Michigan Public Schools Employees Retirement System (MPSERS) as well as other post-employment benefits for healthcare. As a result, the District's Government wide financial statements show a large negative net position. Our contributions toward the MPSERS system are State directed, and the District does not have the ability to reduce this liability. This does not impact the General Fund nor does it reduce the funds available for the District to deliver its core instruction to the students.

Statement of Net Position

	For the Year Ended June 30, 2019	For the Year Ended June 30, 2018
Assets		
Current assets	$ 20,066,600	$ 20,277,470
Capital assets (net of depreciation)	44,258,020	47,540,659
Total assets	64,324,620	67,818,129
Deferred Outflows of Resources		
Deferred charges on refunding	250,160	375,239
Related to postemployment benefits	3,443,732	1,367,461
Related to pensions	22,935,477	13,259,989
	26,629,369	15,002,689
Total assets and deferred outflows of resources	90,953,989	82,820,818
Liabilities		
Current liabilities	9,960,253	10,692,086
Long-term liabilities	4,306,211	8,045,414
Net other postemployment benefits	18,935,723	21,783,516
Net pension liability	72,232,250	63,604,850
Total liabilities	105,434,437	104,125,866
Deferred Inflows of Resources		
Related to postemployment benefits	4,841,349	736,441
Related to pensions	11,996,863	10,480,568
Total liabilities and deferred inflows of resources	122,272,649	115,342,875
Net Position		
Net investment in capital assets	36,891,952	36,665,807
Restricted for:		
Debt Service	267,321	228,224
Sinking Fund	631,236	677,356
Technology	247,921	308,228
Permanent Funds	7,351,310	7,413,040
Unrestricted	(76,708,400)	(77,814,712)
Net position	$ (31,318,660)	$ (32,522,057)

A portion of the District's net position reflects the investment in capital assets (e.g., land, buildings and improvements, and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Additional restrictions exist on permanent trust fund assets restricted by bequest terms and debt service to liquidate bonds and interest.

The remaining net position represents resources that are unrestricted as to how they may be used.

The net position of the District decreased by approximately $1.2 million during the 2018-19 fiscal year. The following chart shows the breakdown of this change. The Statement of Activities presented later in the government-wide financial statements provides greater detail of the District's annual activity. The cost of the District's governmental activities for the year was $49.8 million. Certain activities and programs were paid through charges for services by the beneficiaries of the programs, or grants restricted to specific uses. The remaining public benefit portion of expenditures was paid for with property taxes, state pupil foundation aid, investment earnings, and other miscellaneous revenues.

Statement of Activities

	For the Year Ended June 30, 2019	For the Year Ended June 30, 2018
District Wide Revenues		
Program Revenues		
Charges for services	$ 685,277	$ 476,091
Operating grants and contributions	20,340,724	19,151,306
General Revenues		
Property taxes	8,883,227	8,828,633
State formula aid and unrestricted grants	23,028,494	24,074,062
Other	(1,927,707)	1,961,891
Total revenues	51,010,015	54,491,983
District Wide Expenses		
Instruction	25,694,161	26,182,335
Support services	19,847,641	18,841,851
Community services	764,259	613,947
Food services	2,775,632	2,550,960
Athletics	367,712	325,204
Interest on long-term debt	357,213	474,965
Total expenses	49,806,618	48,989,262
Change in net position	1,203,397	5,502,721
Net position at beginning of year	(32,522,057)	(38,024,778)
Net position at end of year	$ (31,318,660)	$ (32,522,057)

A substantial portion (58.7%) of the District's revenue is received from the State of Michigan. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. This chart depicts the breakdown of the sources of revenue for the District.

Revenue and Other Financing by Source

Revenues	2018-19	Percent	2017-18	Percent
State	$31,685,714	58.5%	$32,676,956	60.2%
Local	12,365,280	22.9%	13,400,337	24.7%
Federal	9,948,001	18.4%	8,168,710	15.1%
Other financing sources	130,279	0.2%	25,000	0.0%
Total	$54,129,274	100.0%	$54,271,003	100.0%

The following chart shows the amount of District expenditures by function for each year.

Expenditures by Function and Other Financing Use

	2018-19	Percent	2017-18	Percent
Instruction	$ 25,892,331	48.5%	25,990,212	48.7%
Support Service	19,473,386	36.4%	19,231,302	36.0%
Community Service	496,452	0.9%	321,310	0.6%
Food Services	2,758,248	5.2%	3,020,800	5.7%
Debt Services/Other	4,824,855	9.0%	4,822,706	9.0%
Other financing uses	-	0.0%	17,897	0.0%
	$ 53,445,272	100%	$ 53,404,227	100.0%

Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds. The combined governmental fund balance increased by $684,002 during the 2018-2019 fiscal year, resulting in total fund balance of $14 million at year-end. (The general operating fund portion of this is $4 million.)

Factors Increasing General Fund Equity

District reductions – In preparation for the 2018-19 fiscal year, the District made adjustments in its operating budget to reduce costs. The District anticipated a loss of 309 students. However, the actual loss was better than anticipated at 214 students.

Other – As a result of revenues exceeding expenses, the General Fund added $456,858 to prior year's fund balance, resulting in a fund balance of $4,008,177. The Department of Treasury continues to maintain a watch list for districts whose fund balance falls under 5%. The District is not currently included on the watch list.

Factors Affecting General Fund Equity

Declining enrollment – We continued to decline in enrollment for 2018-19. The official pupil count showed a decrease of 214 students. At $7,951 per student, this decrease to the District was approximately $1,701,514, and we planned on a loss of 309 students.

Other Funds

The District maintains numerous funds which support overall District objectives and services. All of the other governmental funds showed positive fund balances as of June 30, 2019.

The total other governmental fund balance increased by $284,746 from $4,624,395 to $4,909,141 as of June 30, 2019.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the District amends its budget periodically during the school year in response to changes in the operating environment. These revisions are made in order to deal with unexpected changes in revenues and expenditures. During the 2018-19 year, the budget was amended two times. February 2019 and June 2019 amendments incorporated the October student counts and actual staffing for the school year. The June 2019 amendment incorporated known State funding changes and the administration's best year-end estimates of revenue and expense.

Original budget/final budget comparison:

Revenues – There was a $2,538,532 (5.8%) change in the total General Fund revenue budget from the *original* to the *final* budget for the year. The significant changes in revenue are as follows:

- ***Federal sources*** of revenue budget was increased by $1,238,766. In large, this was due to increased carryover funds in January 2019. The District also received additional funding for the 21st Century program based on adding another site in the district.

- ***Incoming transfers and other transactions*** increased by $118,428. The largest portion of this was due to Middle Cities Workers Comp fund underwriter's final payout and return.

Expenditures – There was a $1,820,950 (4.1%) change in the total General Fund expenditures from the *original* budget to the *final* budget. The significant changes by functional category are as follows:

- ***Added Needs*** increased by $1,002,755. Federal programming funds were allocated to support additional student needs in January 2019 as a result of unspent carryover funds. Additionally the District incurred additional costs for regional special education services and offered an early retirement incentive to one bargaining unit in the District.

- ***Instructional Staff*** increased by $978,952. This increase is due to increased federal program funding in this function code as a result of unspent carryover funds. In addition, all negotiated contracts were settled and resulted in salary and benefit increases. There were also increased costs for staff retirements and off-schedule payments.

- ***Community Services*** increased by $145,717. This increase was due in large to additional distributions of Title funds to parochial schools as well as an increase to contracted speech services at the parochial schools. There were also increased expenditures expected as a result of unspent carryover funds in both Title I and Title IIA.

Final budget/actual results comparison:

Revenues – Actual revenues were $230,196 (0.5%) less than anticipated. A notable variance in this area is in Federal Revenues. We thought we would have spent more of the federal funds to receive more of the grant allocation revenue in this fiscal year than what we did. We are only able to request funds for what we actually spent. Even though we were awarded more, we did not spend all of it. Those unspent revenues will become carryover funds in the 2019-20 fiscal year.

Expenditures – Actual expenses were $397,919 (0.9%) less than anticipated. The biggest percentage of budget variation was in Community Services by $36,855 (6.9%). This is a result of some grants not being spent at 100% by June 30 for the Title Programs. The remainder of the grant will be spent in the next fiscal year, and if not, then it is moved to carry-over of federal funds. Timing plays a role in these grants that cross fiscal years. Another variation was in the Pupil Transportation Services, which was less than anticipated in expenditures by $80,147 (4.7%).

Fund balance as of July 1, 2018 was $3,551,319, and it increased to $4,008,177 as of June 30, 2019.

Capital Assets and Debt Administration

Capital Assets – A summary of the District's capital assets at year-end is outlined below.

Summary of Capital Assets

	June 30, 2018	June 30, 2019
Non Depreciable Assets		
Land	$ 1,022,829	$ 1,022,829
Construction in progress	116,056	957,689
Historical treasures	125,171	125,171
Depreciable Assets, net		
Land improvements	84,408	60,328
Buildings & improvements	45,145,182	41,331,012
Furniture & equipment	957,754	690,496
Vehicles other than buses	89,259	70,495
Total	$ 47,540,659	$ 44,258,020

Debt Administration – A summary of the District's indebtedness is outlined below.

Debt Obligations

July 1, 2018	Additions	Deductions	June 30, 2019	Current
$ 11,720,710	$ 309,278	$ 3,868,442	$ 8,161,546	$ 3,855,335

Debt reductions were in accordance with the required repayment terms, and credit ratings remain sound.

Currently Known Facts

Muskegon City Teachers' Education Association and Administrative Assistant and Executive Secretary contracts expire June 30, 2020. We will begin to meet with the teachers in April 2020. The Administrative Support Personnel, Administrators, and Paraprofessionals' wage and benefit agreements expire in June 2020. Muskegon Clerks-Classroom Assistant Association and the Non-Instruction Employees Association contracts expire in June 2021. For the 2019-20 fiscal year, the District is in year 4 of 5 of the School Improvement Grant (SIG) in the amount of $500,000. Per pupil funding for next year is estimated to be $8,182. The financial outlook of the District has been slowly improving. We are still expecting a decrease in students for the 2019-20 Fiscal Year.

2019-20 Outlook

As of October 2, 2019 a State budget is still uncertain and will force the District to continuously monitor expenses and make budget reductions, as necessary. Retirement rates, as well as insurance costs, are continually escalating, which compound the financial distress of the District. The continued shifting of School State Aid to finance the retirement system deficit impacts unrestricted state aid available. One of the most important components to school funding is the student enrollment. The District is expecting a decrease of 50 students. The District continues to make every effort to avoid eliminating student programs. The District will continue to monitor the budget and only act modestly on cuts when needed to maintain the stability of the District's financial needs.

At June 30, 2019, the District had bonded debt of $7,605,893, net of premiums and discounts. All bonds are qualified by the State of Michigan.

Requests for Information

This financial report is designed to provide the District's citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances, and to show how the District is accountable for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Ms. Catherine Kloska, Chief Financial Officer for the Public Schools of the City of Muskegon or Mrs. Tina L. Wright, Accounting Supervisor for the Public Schools of the City of Muskegon, 349 West Webster Avenue, Muskegon, MI 49440, telephone number (231) 720-2027.

Public Schools of the City of Muskegon
STATEMENT OF NET POSITION
June 30, 2019

	Governmental activities
ASSETS	
Current assets	
Cash and cash equivalents	$ 5,706,849
Investments	7,147,362
Receivables	33,480
Due from other governmental units	6,740,938
Inventories	16,036
Prepaid items	196,935
Deposits	225,000
Total current assets	20,066,600
Noncurrent assets	
Capital assets, net	
Nondepreciable	2,105,689
Depreciable	42,152,331
Total capital assets, net	44,258,020
Total assets	64,324,620
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charges on refunding	250,160
Related to other postemployment benefits	3,443,732
Related to pensions	22,935,477
Total deferred outflows of resources	26,629,369
Total assets and deferred outflows of resources	90,953,989
LIABILITIES	
Current liabilities	
State aid loan	735,179
Accounts payable and accrued liabilities	3,927,849
Due to other governmental units	1,151,206
Unearned revenue	290,684
Bonds and other obligations, due within one year	3,855,335
Total current liabilities	9,960,253
Noncurrent liabilities	
Bonds and other obligations, less amounts due within one year	4,306,211
Net other postemployment benefits liability	18,935,723
Net pension liability	72,232,250
Total noncurrent liabilities	95,474,184
Total liabilities	105,434,437
DEFERRED INFLOWS OF RESOURCES	
Related to other postemployment benefits	4,841,349
Related to pensions	11,996,863
Total deferred inflows of resources	16,838,212
Total liabilities and deferred inflows of resources	122,272,649
NET POSITION	
Net investment in capital assets	36,891,952
Restricted	
Debt service	267,321
Sinking fund	631,236
Technology	247,921
Permanent funds	7,351,310
Unrestricted	(76,708,400)
Total net position	**$ (31,318,660)**

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon
STATEMENT OF ACTIVITIES
For the year ended June 30, 2019

Functions/Programs	Expenses	Program Revenue: Charges for services	Program Revenue: Operating grants and contributions	Net (Expense) Revenue and Changes in Net Position: Governmental activities
Governmental activities				
Instruction	$ 25,694,161	$ 467,646	$ 8,825,860	$ (16,400,655)
Support services	19,847,641	-	8,220,537	(11,627,104)
Community services	764,259	-	349,556	(414,703)
Food services	2,775,632	102,502	2,944,771	271,641
Athletics	367,712	115,129	-	(252,583)
Interest on long-term debt	357,213	-	-	(357,213)
Total governmental activities	**$ 49,806,618**	**$ 685,277**	**$ 20,340,724**	(28,780,617)
General revenues				
Property taxes				8,883,227
Grants and contributions not restricted to specific programs				23,028,494
Investment earnings				579,988
Miscellaneous				456,438
Special item - loss on impairment of capital assets				(2,964,133)
Total general revenues and special item				29,984,014
Change in net position				1,203,397
Net position at beginning of year				(32,522,057)
Net position at end of year				**$ (31,318,660)**

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon
BALANCE SHEET
Governmental Funds
June 30, 2019

	General Fund	Julia E. Hackley Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and cash equivalents	$ 2,617,464	$ 146,579	$ 2,942,806	$ 5,706,849
Investments	-	4,936,785	2,210,577	7,147,362
Receivables	33,480	-	-	33,480
Due from other governmental units	6,573,882	-	167,056	6,740,938
Due from other funds	297,688	-	33	297,721
Inventories	-	-	16,036	16,036
Prepaid items	192,398	-	4,537	196,935
Deposits	-	-	225,000	225,000
Total assets	**$ 9,714,912**	**$ 5,083,364**	**$ 5,566,045**	**$ 20,364,321**
LIABILITIES				
State aid loans	$ 735,179	$ -	$ -	$ 735,179
Accounts payable	333,031	-	359,216	692,247
Accrued liabilities	3,196,602	-	-	3,196,602
Due to other governmental units	1,151,206	-	-	1,151,206
Due to other funds	33	-	297,688	297,721
Unearned revenue	290,684	-	-	290,684
Total liabilities	5,706,735	-	656,904	6,363,639
FUND BALANCES				
Nonspendable				
Inventories	-	-	16,036	16,036
Prepaid items	192,398	-	4,537	196,935
Deposits	-	-	225,000	225,000
Permanent funds	-	5,083,364	2,267,946	7,351,310
Restricted				
Debt service	-	-	306,321	306,321
Sinking fund	-	-	631,236	631,236
Technology	-	-	247,921	247,921
Committed to capital projects	-	-	1,045,430	1,045,430
Assigned to subsequent year's budget appropriations	1,370,280	-	-	1,370,280
Unassigned	2,445,499	-	164,714	2,610,213
Total fund balances	4,008,177	5,083,364	4,909,141	14,000,682
Total liabilities and fund balances	**$ 9,714,912**	**$ 5,083,364**	**$ 5,566,045**	**$ 20,364,321**

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon

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

June 30, 2019

Total fund balances—governmental funds		$ 14,000,682
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 are not reported in the governmental funds.		
Cost of capital assets	$ 68,946,773	
Accumulated depreciation	(24,688,753)	44,258,020
Deferred charges on refunding are not capitalized and amortized in the governmental funds.		
Deferred charges on refunding	1,125,718	
Accumulated amortization	(875,558)	250,160
Deferred inflows and outflows of resources related to pensions and other postemployment benefits are not reported in the governmental funds.		
Deferred outflows of resources - related to other postemployment benefits	3,443,732	
Deferred inflows of resources - related to other postemployment benefits	(4,841,349)	
Deferred outflows of resources - related to pensions	22,935,477	
Deferred inflows of resources - related to pensions	(11,996,863)	9,540,997
Accrued interest in governmental activities is not reported in the governmental funds.		(39,000)
Long-term obligations in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		(99,329,519)
Net position of governmental activities		**$ (31,318,660)**

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Governmental Funds

For the year ended June 30, 2019

	General Fund	Julia E. Hackley Fund	Other governmental funds	Total governmental funds
REVENUES				
Local sources				
Property taxes	$ 4,547,464	$ -	$ 4,251,941	$ 8,799,405
Investment earnings	119,136	312,703	148,149	579,988
Fees and charges	582,775	-	102,502	685,277
Other	1,611,231	-	689,379	2,300,610
Total local sources	6,860,606	312,703	5,191,971	12,365,280
State sources	31,594,132	-	91,582	31,685,714
Federal sources	7,093,494	-	2,854,507	9,948,001
Total revenues	45,548,232	312,703	8,138,060	53,998,995
EXPENDITURES				
Current				
Instruction	25,892,331	-	-	25,892,331
Support services	19,226,126	-	247,260	19,473,386
Community services	496,452	-	-	496,452
Food services	-	-	2,758,248	2,758,248
Permanent funds	-	52,141	19,867	72,008
Debt service				
Principal	59,165	-	3,485,000	3,544,165
Interest and other charges	2,056	-	336,868	338,924
Capital projects	-	-	869,758	869,758
Total expenditures	45,676,130	52,141	7,717,001	53,445,272
Excess (deficiency) of revenues over (under) expenditures	(127,898)	260,562	421,059	553,723
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	25,000	25,000
Transfers in	599,897	-	142,447	742,344
Transfers out	(120,420)	(318,164)	(303,760)	(742,344)
Other transactions	105,279	-	-	105,279
Total other financing sources (uses)	584,756	(318,164)	(136,313)	130,279
Net change in fund balances	456,858	(57,602)	284,746	684,002
Fund balances at beginning of year	3,551,319	5,140,966	4,624,395	13,316,680
Fund balances at end of year	**$ 4,008,177**	**$ 5,083,364**	**$ 4,909,141**	**$ 14,000,682**

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon

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

For the year ended June 30, 2019

Net change in fund balances—total governmental funds		$ 684,002
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities these costs are depreciated over their estimated useful lives.		
Depreciation expense	$ (1,523,119)	
Capital outlay	1,204,613	(318,506)
Impairment of capital assets is not reported in the governmental funds, but the transaction is reported in the Statement of Activities		(2,964,133)
Governmental funds report outlays for deferred charges on refunding as expenditures; in the Statement of Activities these costs are amortized over the bond period.		(125,079)
Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Position.		3,633,863
Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.		17,000
Compensated absences and early retirement obligations reported in the Statement of Activities do not require the use of current financial resources. They are reported as expenditures when financial resources are used in the governmental funds.		(74,699)
Some other postemployment benefit related expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		819,156
Some pension related expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		(468,207)
Change in net position of governmental activities		**$ 1,203,397**

The accompanying notes are an integral part of this statement.

Public Schools of the City of Muskegon
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2019

	Agency funds
ASSETS	
Cash and cash equivalents	$ 302,484
Receivables	5,110
Prepaid items	4,274
	$ 311,868
LIABILITIES	
Accounts payable	$ 20,695
Due to other governmental units	330
Deposits held for others	290,843
	$ 311,868

The accompanying notes are an integral part of this statement.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Public Schools of the City of Muskegon (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied 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 School District's accounting policies are described below.

Reporting Entity
The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities.

Generally accepted accounting principles require that if the School District is considered to be financially accountable for other organizations, those organizations should be included as component units in the School District's financial statements. Since no organizations met this criterion, none are included in the financial statements.

Basis of Presentation—Government-wide and Fund Financial Statements
The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the School District. All fiduciary activities are reported only in the fund financial statements. Governmental activities normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

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

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

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

The School District reports the following major governmental funds:

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

The Julia E. Hackley Fund is a fund to be utilized at the Board's discretion for school and educational purposes in the City of Muskegon and to provide additional educational advantages and opportunities to the children of the City of Muskegon. The fund is legally restricted to the extent that only earnings, and not principal, may be used for the aforementioned purposes

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Basis of Presentation—Government-wide and Fund Financial Statements—Continued
Additionally, the School District reports the following fund types:

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

The debt service funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The capital projects funds account for the financial resources to be used for the acquisition of fixed assets or construction of major capital projects.

The sinking fund accounts for expenditures related to maintenance and replacement of capital assets.

The permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the School District's programs.

The agency fund is custodial in nature and used to account for assets held by the School District as an agent for another organization or individual.

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

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

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

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting—Continued

For this purpose, the School District 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, early retirement obligations and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

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

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

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

The agency fund has no measurement focus, but utilizes the accrual basis of accounting for reporting its assets and liabilities.

Cash and Investments

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

Investments for the School District are reported at fair value (generally based on quoted market prices).

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting—Continued

Cash and Investments—Continued
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 School District intends to hold the investment until maturity.

State statutes authorize the School 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 School 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. The School District's deposits and investments are in accordance with statutory authority.

Inventories and Prepaid Items
All inventories are valued at cost using the first-in/first-out method. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

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

Capital Assets
Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year.

As the School District constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

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

Capital Asset Classes	Years
Land improvements	15-20
Building and improvements	5-50
Furniture and equipment	5-20
Vehicles other than buses	5-10

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting—Continued

Long-term Obligations
In the government-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 deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses in the year in which they are incurred.

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

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

Deferred Outflows/Inflows of Resources
In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position Flow Assumption
Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts of net position to report as restricted and unrestricted in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the School District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

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

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

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

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

Revenues and Expenditures/Expenses

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

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

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Revenues and Expenditures/Expenses—Continued

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

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

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

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

Early Retirement Obligations
For government-wide financial statements, the liability for early retirement obligations is reported when legally enforceable. For fund financial statements, the liability for early retirement obligations is reported either 1) on the due date when there is a specified due date or 2) on the retirement date if it is before year end, when there is not a specified legally enforceable due date.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting
Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, special revenue and debt service funds. All annual appropriations lapse at year end.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgets and Budgetary Accounting—Continued

The School 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 Board of Education 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, in the General Fund are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts within 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 Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2019.

Sinking Fund

The Sinking Fund Capital Projects Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212 of the Revised School Code.

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2019, the School District had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Moody's or Standard & Poor's rating	Percent
Money market funds	$ 38,833	20	AAAm	0.54%
Exchange-traded funds				
Vanguard Value ETF	692,362	N/A	Not rated	9.63%
Vanguard Mid-Cap	366,582	N/A	Not rated	5.10%
Other	396,001	N/A	Not rated	5.51%
Mutual funds				
Dodge & Cox Intl Stock Fund	539,635	N/A	Not rated	7.51%
Ishares Russell 1000	1,014,345	N/A	Not rated	14.12%
Ishares Russell 1000 Growth Index	774,743	N/A	Not rated	10.78%
Ishares S&P 500 Index Fund Class K	783,708	N/A	Not rated	10.91%
MFS Value Fund Class I	448,690	N/A	Not rated	6.24%
Oppenheimer Developing Markets	405,341	N/A	Not rated	5.64%
Other	530,254	N/A	Not rated	7.38%
Bond funds	1,195,701	N/A	Various	16.64%
Total fair value	**$ 7,186,195**			**100.00%**

Risk and Uncertainties
The School District has accounts that invest in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect account balances and the amounts reported in the financial statements.

NOTE C—DEPOSITS AND INVESTMENTS—Continued

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

Credit risk
State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Concentration of credit risk
The School District does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits
In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2019, $5,808,420 of the School District's bank balance of $6,308,420 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

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

NOTE D—FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the School District has the ability to access.

Level 2 Inputs to the valuation methodology include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2019.

Money market and mutual funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Exchange-traded funds: Valued throughout the day as they are bought and sold on active market.

Bond funds: Valued based on yields currently available on comparable securities of issuers with similar credit ratings.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the School District believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE D—FAIR VALUE MEASUREMENTS—Continued

The following table sets forth by level, within the fair value hierarchy, the School District's assets at fair value on a recurring basis as of June 30, 2019:

	Assets at Fair Value as of June 30, 2019	
	Level 1	**Total**
Money market funds	$ 38,833	$ 38,833
Exchange-traded funds	1,454,945	1,454,945
Mutual funds	4,496,716	4,496,716
Bond funds	1,195,701	1,195,701
Total assets at fair value	**$ 7,186,195**	**$ 7,186,195**

NOTE E—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Capital assets, not being depreciated:				
Land	$ 1,022,829	$ -	$ -	$ 1,022,829
Construction in progress	116,056	841,633	-	957,689
Historical treasures	125,171	-	-	125,171
Total capital assets, not being depreciated	1,264,056	841,633	-	2,105,689
Capital assets, being depreciated:				
Land improvements	1,123,404	-	12,580	1,110,824
Buildings and improvements	64,054,122	303,908	4,302,974	60,055,056
Furniture and equipment	5,269,687	59,072	-	5,328,759
Vehicles other than buses	346,445	-	-	346,445
Total capital assets, being depreciated	70,793,658	362,980	4,315,554	66,841,084

NOTE E—CAPITAL ASSETS—Continued

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Less accumulated depreciation and amortization:				
Land improvements	$ 1,038,996	$ 24,080	$ 12,580	$ 1,050,496
Buildings and improvements	18,908,940	1,153,944	1,338,840	18,724,044
Furniture and equipment	4,311,933	326,330	-	4,638,263
Vehicles other than buses	257,186	18,764	-	275,950
Total accumulated depreciation and amortization	24,517,055	1,523,118	1,351,420	24,688,753
Total capital assets, being depreciated, net	46,276,603	(1,160,138)	2,964,134	42,152,331
Capital assets, net	**$ 47,540,659**	**$ (318,505)**	**$ 2,964,134**	**$ 44,258,020**

Depreciation and amortization
Depreciation and amortization expense has been charged to functions as follows:

Instruction	$ 980,277
Support services	298,451
Community services	222,392
Food services	21,998
	$ 1,523,118

As of June 30, 2019, the School District had impaired and idle real estate valued at approximately $275,000. The real estate consists of two properties, Hackley Administration and Angell that were written down.

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2019 is as follows:

Due to/from other funds:

Receivable fund	Payable fund	Amount
General Fund	Other governmental funds	$ 297,688
Other governmental funds	General Fund	33
		$ 297,721

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS—Continued

Interfund Transfers

	Transfers in		
Transfers out	**General Fund**	**Other governmental funds**	**Total**
General Fund	$ -	$ 120,420	$ 120,420
Julia E. Hackley Fund	318,164	-	318,164
Other governmental funds	281,733	22,027	303,760
Total	**$ 599,897**	**$ 142,447**	**$ 742,344**

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, 2) move restricted amounts from borrowings to the debt service fund to establish mandatory reserve accounts, 3) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

NOTE G—SHORT-TERM DEBT

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. In the event of default, the State of Michigan can withhold future state aid payments. The short-term debt activity for the year ended June 30, 2019 follows:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019
State aid anticipation note				
2017/2018 1.27% due July 2018	$ 980,956	$ -	$ 980,956	$ -
2018/2019 1.75% due July 2019	-	5,750,000	5,014,821	735,179
	$ 980,956	**$ 5,750,000**	**$ 5,995,777**	**$ 735,179**

NOTE H—LONG-TERM OBLIGATIONS

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District.

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

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due within one year
Governmental activities					
Bonds	$ 10,955,000	$ -	$ 3,485,000	$ 7,470,000	$ 3,595,000
Premium	255,707	-	98,984	156,723	-
Discount	(31,247)	-	(10,417)	(20,830)	-
Notes from direct borrowings and direct placements	70,631	-	60,296	10,335	10,335
Termination benefits	-	80,000	20,000	60,000	20,000
Compensated absences	470,619	229,278	214,579	485,318	230,000
	$ 11,720,710	**$ 309,278**	**$ 3,868,442**	**$ 8,161,546**	**$ 3,855,335**

The governmental activities refunding bonds are secured by future state aid and property tax revenues of the School District. If the School District defaults, the bonds are callable.

The governmental activity notes from direct borrowings and direct payments are comprised of a capital lease. The capital lease is non-cancellable by the School District and is secured by the equipment. The capital lease includes a 10 percent late charge if any payment is not made within 5 days of its original due date.

General obligation bonds and notes from direct borrowings and direct placements consist of the following:

	Interest Rate	Date of Maturity	Balance
Governmental activities:			
General obligation bonds			
2008 School Building & Site Bonds	4.8-5%	May 2023	$ 335,000
2009 School Building & Site Bonds	4-4.25%	May 2021	3,290,000
2012 Refunding Bonds	2.1%	May 2021	3,845,000
			$ 7,470,000
Notes from direct borrowings and direct placements			
Capital lease obligation	6%	August 2019	**$ 10,335**

NOTE H—LONG-TERM OBLIGATIONS—Continued

The annual requirements of principal and interest to amortize the bonds and notes from direct borrowings and direct placements outstanding as of June 30, 2019 follow:

	Governmental activities					
	Bonds		Notes from Direct Borrowings and Direct Placements		Other	
Year ended June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2020	$ 3,595,000	$ 372,435	$ 10,335	$ 61	$ 20,000	$ -
2021	3,700,000	125,856	-	-	20,000	-
2022	85,000	8,750	-	-	20,000	-
2023	90,000	4,500	-	-	-	-
	$ 7,470,000	**$ 511,541**	**$ 10,335**	**$ 61**	**$ 60,000**	**$ -**

NOTE I—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

Benefits Provided – Pension

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected (Basic, Member Investment Plan (MIP), Pension Plus, Pension Plus 2), member retirement benefits for DB plan members are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. 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 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 rights 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.

NOTE I—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

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

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

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus plan described above and a DC plan that provides a 50 percent employer match (up to 3 percent of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period, as reported to ORS, to elect to opt out of the Pension Plus plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus plan. If they elect to opt out of the Pension Plus plan, their participation in the DC plan will be retroactive to their date of hire.

Employees in the Pension Plus and DC plans are immediately vested in their own contributions and earnings on those contributions. The employee becomes vested in the employer match contribution at the following rates: 50 percent after two years of service, 75 percent after three years of service, and 100 percent after four years of service. Non-vested contributions are forfeited upon termination of employment. Forfeitures during a plan year are credited to a forfeitures account. Forfeitures are first applied to restore any forfeited amounts that are required to be restored. The remaining amounts in the forfeitures account may be maintained in reserve, used to cover a portion of the plan's administrative expenses or offset future employer contributions, as determined by the plan administrator.

Pension Reform 2017
On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closes the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan (Pension Plus 2) with similar plan benefit calculations, but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan is 6 percent. Further, the law provides that, under certain conditions, the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85 percent for two consecutive years. The law includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Regular Retirement
The pension benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation (FAC). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period.

NOTE I—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Regular Retirement— Continued
For a Member Investment Plan member, who became a member of MPSERS prior to July 1, 2010, the averaging period is 36 consecutive months. For a Pension Plus member, who became a member of MPSERS after June 30, 2010, the averaging period is 60 consecutive months. For a Basic Plan member, this period is the 60 consecutive months yielding the highest total wages. The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012.

Post-Retirement Adjustments
A retiree who became a Member Investment Plan member prior to July 1, 2010, receives an annual post-retirement non-compounded increase of three percent of the initial pension in the October following twelve months of retirement. Basic Plan members do not receive an annual post-retirement increase, but are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions. Pension Plus members do not receive an annual post-retirement increase.

Plan Status
The Basic, MIP, and Pension Plus plans are closed to new entrants. The Pension Plus 2 plan and the DC plan are still open to new entrants.

Benefits Provided – OPEB
Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree 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 Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80 percent beginning January 1, 2013; 90 percent 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 Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3 percent contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3 percent 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 percent employee contribution into their 457 account as of their transition date, earning them a 2 percent employer match into a 401(k) account. Members who selected this option stop paying the 3 percent contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

NOTE I—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Contributions – Pension and OPEB
School Districts are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2017 valuation will be amortized over a 21-year period for the 2018 fiscal year.

The schedules below summarize the contribution rates in effect for the System's fiscal year ended September 30, 2018.

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0 - 4.0 %	17.89 %
Member Investment Plan	3.0 - 7.0	17.89
Pension Plus Plan	3.0 - 6.4	16.61
Pension Plus 2 Plan	3.0 - 6.4	19.74
Defined Contribution	0.0	13.54

OPEB Contribution Rates

Benefit Structure	Member	Employer
Premium Subsidy	3.0 %	6.44 %
Personal Healthcare Fund	0.0	6.13

The School District's pension contributions for the year ended June 30, 2019 were equal to the required contribution total. Pension contributions were approximately $6,189,000, including Section 147c contributions.

For the year ended June 30, 2019, the School District and employee defined contribution plan contributions were approximately $78,000 and $121,000 respectively.

The School District's OPEB contributions for the year ended June 30, 2019 were equal to the required contribution total. OPEB contributions were approximately $1,596,000.

Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources
At June 30, 2019, the School District reported a liability of $72,232,250 for its proportionate share of the net pension liability and a liability of $18,935,723 for its proportionate share of the net OPEB liability.

The net pension and OPEB liabilities were measured as of September 30, 2018, and the total pension and OPEB liabilities used to calculate the net pension and OPEB liabilities were determined by an actuarial valuation rolled forward from September 30, 2017.

NOTE I—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources—Continued

The School District's proportion of the net pension and OPEB liabilities was determined by dividing each employer's statutorily required pension and OPEB contributions to the system during the measurement period by the percent of pension and OPEB contributions, respectively, required for all applicable employers during the measurement period. At September 30, 2018 and 2017, the School District's pension proportion was 0.24028 and 0.24544 percent, respectively. At September 30, 2018 and 2017, the School District's OPEB proportion was 0.23822 and 0.24599 percent, respectively.

For the year ended June 30, 2019, the School District recognized pension expense of $7,049,184 and OPEB expense of $796,400.

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

	Pension		OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 335,171	$ 524,899	$ -	$ 3,524,424
Changes of assumptions	16,728,930	-	2,005,303	-
Net difference between projected and actual earnings on plan investments	-	4,938,850	-	727,745
Changes in proportion and differences between School District contributions and proportionate share of contributions	46,011	3,902,792	357	589,180
State of Michigan Section 147c UAAL rate stabilization state aid payments subsequent to the measurement date	-	2,630,322	-	-
School District contributions subsequent to the measurement date	5,825,365	-	1,438,072	-
Total	**$ 22,935,477**	**$ 11,996,863**	**$ 3,443,732**	**$ 4,841,349**

The School District contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions and OPEB, in the chart above, will be recognized as a reduction of the net pension liability and the net OPEB liability, respectively, in the year ended June 30, 2020. The State of Michigan Section 147c UAAL rate stabilization state aid payments subsequent to the measurement date reported as deferred inflows of resources will be recognized as revenue in the year ended June 30, 2020.

NOTE I—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources—Continued

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

Year ending June 30,	Pension	OPEB
2020	$ 2,892,569	$ (682,815)
2021	2,255,150	(682,815)
2022	1,769,889	(682,815)
2023	825,963	(534,340)
2024	-	(252,904)

Actuarial assumptions

Valuation Assumptions

Investment rate of return –	7.05% a year for the MIP and Basic plans 7% a year for the Pension Plus plan 6% a year for the Pension Plus 2 plan 7.15% a year for OPEB
Salary increases –	2.75%-11.55%
Inflation –	2.75%
Cost-of-living pension adjustments –	3% annual non-compounded for MIP members
Healthcare cost trend rate –	7.5% Year 1 graded to 3% Year 12

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 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.

Mortality Assumptions

The healthy life post-retirement mortality tables used in this valuation of the System were the RP-2014 Male and Female Healthy Annuitant Mortality Tables, adjusted for mortality improvements using projection scale MP-2017 from 2006.

NOTE I—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Actuarial assumptions—Continued

Experience Study
The annual actuarial valuation report of the System used for these statements is dated September 30, 2017. Assumption changes as a result of an experience study for the period 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.

Long-Term Expected Rate of Return on Investments
The long-term expected rate of return on 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 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.

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

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

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

Discount rate
In the current year, the discount rates used to measure the total pension and OPEB liabilities were 7.05 percent (7 percent for the Pension Plus plan and 6 percent for the Pension Plus 2 plan), and 7.15 percent, respectively. The discount rates used to measure the total pension and OPEB liability as of June 30, 2018 were 7.5 percent (7 percent for the Pension Plus plans). The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension and 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 and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

NOTE I—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Sensitivity of the net pension liability to changes in the discount rate
The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.05 percent (7 percent for Pension Plus plan and 6 percent for the Pension Plus 2 plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

1 % Lower (6.05% / 6% / 5%)	Discount Rate (7.05% / 7% / 6%)	1 % Higher (8.05% / 8% / 7%)
$ 94,835,366	$ 72,232,250	$ 53,452,736

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 percent, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

1 % Lower (6.15%)	Discount Rate (7.15%)	1 % Higher (8.15%)
$ 22,731,950	$ 18,935,723	$ 15,742,632

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 assumed trend rates, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is 1 percentage point lower or 1 percentage point higher:

1% Lower	Current Healthcare Cost Trend Rate	1% Higher
$ 15,574,423	$ 18,935,723	$ 22,791,819

Pension and OPEB Plans Fiduciary Net Position
Detailed information about the pension and OPEB plans' fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System Comprehensive Annual Financial Report available at www.michigan.gov/orsschools.

Payable to the pension and OPEB plan
At year end the School District is current on all required pension and OPEB payments. Accruals for July and August deferred payroll and for July and August Section 147c amounts are not considered payables for this purpose.

NOTE J—COMMITMENTS AND CONTINGENCIES

Commitments
As of June 30, 2019, the School District had approved construction commitments of approximately $621,000 and technology equipment purchases of approximately $221,000.

Capital Lease
Included in furniture and equipment are the following assets held under a capital lease as of June 30, 2019:

Furniture and equipment	$ 276,553
Less accumulated depreciation	(262,726)
	$ 13,827

Future minimum lease payment for assets under a capital lease for 2020:

Year ending June 30,	**Amount**
Total minimum lease payment for 2020	$ 10,398
Less amount representing interest	(63)
Present value of net minimum lease payments	10,335
Less current maturities	(10,335)
Long-term obligation	**$ -**

Litigation
The School District is a defendant in a lawsuit. Although the outcome of the lawsuit is not presently determinable, in the opinion of the School District's legal counsel, the resolution of the matter will not have a material adverse effect on the financial condition of the School District.

Grant Programs
The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

NOTE K—OTHER INFORMATION

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual contributions under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool maintains excess insurance for any one claim in excess of $500,000. The property and casualty pool maintains excess insurance for any property and casualty claim in excess of $750,000, and any errors and omissions claim in excess of $300,000. Additionally, all participating members in the property and casualty pool have $400,000,000 of excess property coverage and $9,000,000 of excess liability coverage.

The School District continues to carry commercial insurance for other risks, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2019 or any of the prior three years.

NOTE L—TAX ABATEMENTS

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

Municipality	Abatement type	Taxes abated
City of Muskegon	IFT	$ 15,564
City of Muskegon	BRA	140,514
City of Muskegon	PILOT	114,700
		$ 270,778

The tax abatements that reduce the general fund operating tax levy are considered by the State of Michigan when calculating the School District's state aid—section 22 of the State School Aid Act.

There are no significant abatements made by the School District.

NOTE M—SUBSEQUENT EVENT

In August 2019, the School District received the proceeds of a $3,000,000 State of Michigan (State) school aid anticipation note payable. A portion of the note is subject to redemption beginning in January 2020 with the final payment made upon its maturity in August 2020 and bears interest at the rate of 1.3 percent per annum. The School District pledged for payment of the note payable the amount of State school aid to be received plus the full faith, credit, and resources of the School District.

NOTE O—UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement 84—*Fiduciary Activities* was issued by the GASB in January 2017 and will be effective for the School District's 2020 fiscal year. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements.

GASB Statement 87—*Leases* was issued by the GASB in June 2017 and will be effective for the School District's 2021 fiscal year. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

REQUIRED SUPPLEMENTARY INFORMATION

Public Schools of the City of Muskegon
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2019

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	**Final**	**Actual**	
REVENUES				
Local sources	$ 6,900,618	$ 6,960,125	$ 6,860,606	$ (99,519)
State sources	30,473,636	31,595,467	31,594,132	(1,335)
Federal sources	5,983,036	7,221,802	7,093,494	(128,308)
Incoming transfers and other transactions	587,782	706,210	705,176	(1,034)
Total revenues	43,945,072	46,483,604	46,253,408	(230,196)
EXPENDITURES				
Instruction				
Basic programs	19,689,704	18,887,704	18,761,660	126,044
Added needs	6,135,915	7,138,670	7,130,671	7,999
Support services				
Pupil	3,557,032	3,690,837	3,653,683	37,154
Instructional staff	3,015,848	3,994,800	3,917,110	77,690
General administration	548,046	626,150	630,487	(4,337)
School administration	2,172,124	2,171,755	2,161,457	10,298
Business	1,012,656	1,000,505	1,003,443	(2,938)
Operations and maintenance	4,047,865	4,341,188	4,321,173	20,015
Pupil transportation services	1,700,524	1,691,216	1,611,069	80,147
Central	1,241,519	1,213,289	1,208,396	4,893
Athletics	684,764	723,406	719,308	4,098
Community services	387,590	533,307	496,452	36,855
Capital outlay	61,222	61,222	61,221	1
Outgoing transfers and other transactions	118,710	120,420	120,420	-
Total expenditures	44,373,519	46,194,469	45,796,550	397,919
Excess (deficiency) of revenues over (under) expenditures	**$ (428,447)**	**$ 289,135**	456,858	**$ 167,723**
Fund balance at beginning of year			3,551,319	
Fund balance at end of year			**$ 4,008,177**	

Public Schools of the City of Muskegon

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the School District's Proportionate Share of the Net Pension Liability

Michigan Public School Employees Retirement System

Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
School District's proportion of the net pension liability (%)	0.24028%	0.24544%	0.25863%	0.26626%	0.27935%	-	-	-	-	-
School District's proportionate share of the net pension liability	$ 72,232,250	$ 63,604,850	$ 64,526,984	$ 65,033,805	$61,530,382	$ -	$ -	$ -	$ -	$ -
School District's covered payroll	$ 19,972,908	$ 20,404,991	$ 21,550,557	$ 22,193,284	$23,788,237	$ -	$ -	$ -	$ -	$ -
School District's proportionate share of the net pension liability as a percentage of its covered payroll	361.65%	311.71%	299.42%	293.03%	258.66%	-	-	-	-	-
Plan fiduciary net position as a percentage of the total pension liability	62.36%	64.21%	63.27%	63.17%	66.20%	-	-	-	-	-

Note: For years prior to 2015 the information is not available. Until a full 10-year trend is compiled, information will only be presented for those years for which information is available.

Public Schools of the City of Muskegon

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the School District's Pension Contributions

Michigan Public School Employees Retirement System

Last 10 Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Statutorily required contributions	$ 3,558,470	$ 3,599,189	$ 3,770,313	$ 4,896,210	$ 5,607,073	$ -	$ -	$ -	$ -	$ -
Contributions in relation to the statutorily required contributions	3,558,470	3,599,189	3,770,313	4,896,210	5,607,073	-	-	-	-	-
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
School District's covered payroll	$ 20,197,750	$ 20,347,613	$ 20,698,345	$ 21,991,162	$ 22,432,662	$ -	$ -	$ -	$ -	$ -
Contributions as a percentage of covered payroll	17.62%	17.69%	18.22%	22.26%	25.00%	-	-	-	-	-

Public Schools of the City of Muskegon

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the School District's Proportionate Share of the Net OPEB Liability

Michigan Public School Employees Retirement System

Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
School District's proportion of the net OPEB liability (%)	0.23822%	0.24599%	-	-	-	-	-	-	-	-
School District's proportionate share of the net OPEB liability	$ 18,935,723	$ 21,783,516	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
School District's covered payroll	$ 19,972,908	$ 20,404,991	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
School District's proportionate share of the net OPEB liability as a percentage of its covered payroll	94.81%	106.76%	-	-	-	-	-	-	-	-
Plan fiduciary net position as a percentage of the total OPEB liability	42.95%	36.39%	-	-	-	-	-	-	-	-

Public Schools of the City of Muskegon

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the School District's OPEB Contributions

Michigan Public School Employees Retirement System

Last 10 Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Statutorily required contributions	$ 1,595,627	$ 1,506,225	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Contributions in relation to the statutorily required contributions	1,595,627	1,506,225	-	-	-	-	-	-	-	-
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
School District's covered payroll	$ 20,197,750	$ 20,347,613	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Contributions as a percentage of covered payroll	7.90%	7.40%	-	-	-	-	-	-	-	-

Note: For years prior to 2018 the information is not available. Until a full 10-year trend is compiled, information will only be presented for those years for which information is available.

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

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

OTHER SUPPLEMENTAL INFORMATION

Public Schools of the City of Muskegon

COMBINING BALANCE SHEET

Other Governmental Funds

June 30, 2019

	Total other governmental funds	Special Revenue			Capital Projects			Permanent Funds
		Food Service	Technology	Debt Service	Public Improvements	Library Capital Improvements	Sinking Fund	
ASSETS								
Cash and cash equivalents	$ 2,942,806	$ 163,331	$ 512,335	$ 492,113	$ 632,764	$ 412,666	$ 672,228	$ 57,369
Investments	2,210,577	-	-	-	-	-	-	2,210,577
Due from other governmental units	167,056	137,416	68	26,034	-	-	3,538	-
Due from other funds	33	33	-	-	-	-	-	-
Inventories	16,036	16,036	-	-	-	-	-	-
Prepaid items	4,537	4,537	-	-	-	-	-	-
Deposits	225,000	225,000	-	-	-	-	-	-
Total assets	**$ 5,566,045**	**$ 546,353**	**$ 512,403**	**$ 518,147**	**$ 632,764**	**$ 412,666**	**$ 675,766**	**$ 2,267,946**
LIABILITIES								
Accounts payable	$ 359,216	$ 94,736	$ 264,480	$ -	$ -	$ -	$ -	$ -
Due to other funds	297,688	41,330	2	211,826	-	-	44,530	-
Total liabilities	656,904	136,066	264,482	211,826	-	-	44,530	-
FUND BALANCES								
Nonspendable								
Inventories	16,036	16,036	-	-	-	-	-	-
Prepaid items	4,537	4,537	-	-	-	-	-	-
Deposits	225,000	225,000	-	-	-	-	-	-
Permanent funds	2,267,946	-	-	-	-	-	-	2,267,946
Restricted								
Debt service	306,321	-	-	306,321	-	-	-	-
Sinking fund	631,236	-	-	-	-	-	631,236	-
Technology	247,921	-	247,921	-	-	-	-	-
Committed to capital projects	1,045,430	-	-	-	632,764	412,666	-	-
Unassigned	164,714	164,714	-	-	-	-	-	-
Total fund balances	4,909,141	410,287	247,921	306,321	632,764	412,666	631,236	2,267,946
Total liabilities and fund balances	**$ 5,566,045**	**$ 546,353**	**$ 512,403**	**$ 518,147**	**$ 632,764**	**$ 412,666**	**$ 675,766**	**$ 2,267,946**

Public Schools of the City of Muskegon

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)

Other Governmental Funds

For the year ended June 30, 2019

	Total other governmental funds	Special Revenue			Capital Projects			Permanent Funds
		Food Service	Technology	Debt Service	Public Improvements	Library Capital Improvements	Sinking Fund	
REVENUES								
Local sources								
Property taxes	$ 4,251,941	$ -	$ -	$ 3,743,637	$ -	$ -	$ 508,304	$ -
Investment earnings	148,149	3,043	-	4,816	6,124	3,633	-	130,533
Fees and charges	102,502	102,502	-	-	-	-	-	-
Other	689,379	12,000	652,287	92	-	25,000	-	-
Total local sources	5,191,971	117,545	652,287	3,748,545	6,124	28,633	508,304	130,533
State sources	91,582	91,582	-	-	-	-	-	-
Federal sources	2,854,507	2,854,507	-	-	-	-	-	-
Total revenues	8,138,060	3,063,634	652,287	3,748,545	6,124	28,633	508,304	130,533
EXPENDITURES								
Current								
Support services	247,260	-	247,260	-	-	-	-	-
Food services	2,758,248	2,758,248	-	-	-	-	-	-
Permanent funds	19,867	-	-	-	-	-	-	19,867
Debt service								
Principal repayment	3,485,000	-	-	3,485,000	-	-	-	-
Interest and other charges	336,868	-	-	336,868	-	-	-	-
Capital projects	869,758	-	315,334	-	-	-	554,424	-
Total expenditures	7,717,001	2,758,248	562,594	3,821,868	-	-	554,424	19,867
Excess (deficiency) of revenues over (under) expenditures	421,059	305,386	89,693	(73,323)	6,124	28,633	(46,120)	110,666
OTHER FINANCING SOURCES (USES)								
Proceeds from sale of capital assets	25,000	-	-	-	25,000	-	-	-
Transfers in	142,447	-	-	95,420	-	47,027	-	-
Transfers out	(303,760)	(38,966)	(150,000)	-	-	-	-	(114,794)
Total other financing sources (uses)	(136,313)	(38,966)	(150,000)	95,420	25,000	47,027	-	(114,794)
Net change in fund balances	284,746	266,420	(60,307)	22,097	31,124	75,660	(46,120)	(4,128)
Fund balances at beginning of year	4,624,395	143,867	308,228	284,224	601,640	337,006	677,356	2,272,074
Fund balances at end of year	**$ 4,909,141**	**$ 410,287**	**$ 247,921**	**$ 306,321**	**$ 632,764**	**$ 412,666**	**$ 631,236**	**$ 2,267,946**