

Holton Public Schools

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended June 30, 2020



Holton Public Schools

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**INDEPENDENT AUDITOR'S REPORT**

Board of Education  
Holton Public Schools  
Holton, 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 Holton Public Schools (the School District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Board of Education  
Holton Public Schools  
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**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 Holton Public Schools as of June 30, 2020, 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.

**Emphasis of Matter – Change in Accounting Principle**

As described in Note M to the financial statements, Holton Public Schools implemented Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

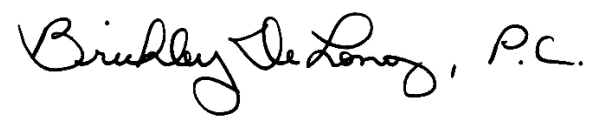
**Other Matters**

*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 3 through 12 and 43 through 48 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2020 on our consideration of Holton Public Schools’ internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Holton Public Schools’ internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Holton Public Schools’ internal control over financial reporting and compliance.



Hart, Michigan  
September 30, 2020



## Management's Discussion and Analysis 2019-2020

This section of Holton Public School's Annual Financial Report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2020. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

### Using this Annual Report

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand Holton Public Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a long-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds, the General Fund, the School Improvement Sinking Fund, 2018 Capital Projects Fund, and all other funds presented in one column as nonmajor funds.

### Overview of the Financial Statements

This annual report consists of four parts: (1) management's discussion and analysis (this section), (2) the auditor's opinion, (3) the basic financial statements, and (4) the required supplementary 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.

### Reporting the School District as a Whole – District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the School District's financial statements, report information about the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.



## Management's Discussion and Analysis 2019-2020

These two statements report the School District's net position – the difference between assets, deferred inflows and outflows, and liabilities, as reported in the Statement of Net Position – as one way to measure the School District's financial health or financial position. The footnotes to the financial statements contain the details.

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

The Statement of Net Position and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The District-Wide beginning net position and Fund Financial Statement beginning fund balance were restated for the effects of including the student activity beginning fund balance in the special revenue funds as required by GASB 84. The footnotes to the financial statements contain the details. The prior year Statement of Activities was not restated for the effect of GASB Statement 84 as the data is not available.

### **Reporting the School District's Most Significant Funds – Fund Financial Statements**

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes other funds to help it control and manage money for particular purposes (Food Services, Student/School Activities, Security and Technology Millage, and Capital Projects) or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects).

**Governmental funds** – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation.



Management’s Discussion and Analysis 2019-2020

**The School District as a Whole**

Recall that the Statement of Net Position provides the perspective of the School District as a whole. The net position of the District at June 30, 2020 amounted to a deficit of approximately \$11.8 million. Table 1 shows a condensed breakdown of the net assets.

**Table 1  
Condensed Statement of Net Position**

	<b>Governmental Activities June 30, 2020, as restated</b>	<b>Governmental Activities June 30, 2019</b>
Current assets	\$ 7,382,471	\$ 11,085,312
Capital assets, net	<u>17,060,629</u>	<u>14,302,310</u>
<b>Total assets</b>	<b>24,443,100</b>	<b>25,387,622</b>
Deferred Outflows	<u>5,587,974</u>	<u>5,555,658</u>
<b>Total assets and deferred outflows</b>	<b>30,031,074</b>	<b>30,943,280</b>
Current liabilities	3,647,608	4,569,326
Non-current liabilities	35,851,853	35,607,188
Deferred inflows	<u>2,296,826</u>	<u>2,383,953</u>
<b>Total liabilities and deferred inflows</b>	<b>41,796,287</b>	<b>42,560,467</b>
Net position		
Net investment in capital assets	1,554,428	2,697,299
Restricted	3,181,316	6,556,453
Unrestricted	<u>(16,500,957)</u>	<u>(20,870,939)</u>
<b>Total net position</b>	<b><u>\$(11,765,213)</u></b>	<b><u>\$(11,617,187)</u></b>

The largest portion of the District’s net position reflects investment in capital assets (e.g., land, buildings and improvements, fiber optics, furniture and equipment) less any related debt used to acquire those assets that are 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 capital assets themselves cannot be used to liquidate these liabilities.



**Management’s Discussion and Analysis 2019-2020**

The major changes affecting the Condensed Statement of Net Position include the decrease of current assets due to the capital project expenditures related to the 2018 Bond, an increase of capital assets due to capital projects funded by the 2018 Bond proceeds, an increase of deferred inflows and outflows related to pension and postemployment benefit liabilities, and an increase in liabilities due to the 2018 Bond. See the notes to the financial statements for additional information on the reporting of pension assets, liabilities and expense.

The results of this year’s operations for the School District as a whole are reported in the Statement of Activities (Table 2), which shows the changes in net position for fiscal year 2020.

**Table 2  
Statement of Activities**

	<b>Governmental Activities <u>June 30, 2020</u></b>	<b>Governmental Activities <u>June 30, 2019</u></b>
<b>Revenues</b>		
Program Revenues		
Charges for services	\$ 285,094	\$ 88,607
Operating grants and contributions	3,929,339	2,967,543
General revenues		
Property taxes	1,940,282	1,901,864
Unrestricted grants and contributions	5,674,415	5,592,831
Other	<u>112,007</u>	<u>200,822</u>
<b>Total revenues</b>	<b><u>11,941,137</u></b>	<b><u>10,751,667</u></b>
<b>Expenses</b>		
Instruction	5,941,531	5,883,235
Support services	4,189,879	3,505,419
Food services	900,050	591,836
Student/school activities	139,010	-
Athletics	437,754	435,642
Interest on long-term debt	<u>582,937</u>	<u>676,137</u>
<b>Total expenses</b>	<b><u>12,191,161</u></b>	<b><u>11,092,269</u></b>
<b>Increase (decrease) in net position</b>	<b>(250,024)</b>	<b>(340,602)</b>
Net position at beginning of year, as restated	<u>(11,515,189)</u>	<u>(11,276,585)</u>
<b>Net position at end of year</b>	<b><u>\$ (11,765,213)</u></b>	<b><u>\$ (11,617,187)</u></b>

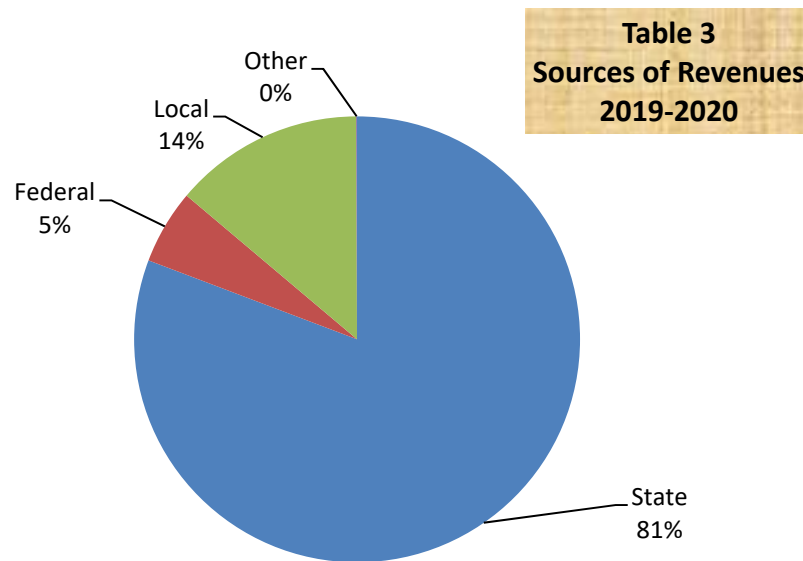


**Management’s Discussion and Analysis 2019-2020**

The net position of the District decreased by \$250,023 during the 2019-2020 fiscal year. The cost of the District’s governmental activities for the year was \$12.2 million. Those who benefited from food service, athletic programs, instructional and support services, paid service charges of \$285 thousand. Operating grants and contributions of \$3.9 million were for programs paid for by other governments and organizations. The other resources were provided with property tax, state pupil foundation allowance (state aid), investment earnings and other miscellaneous revenues.

The overall change in the Statement of Activities was due to a decrease in interest expense on long-term debt as well as an increase in pension related expenses.

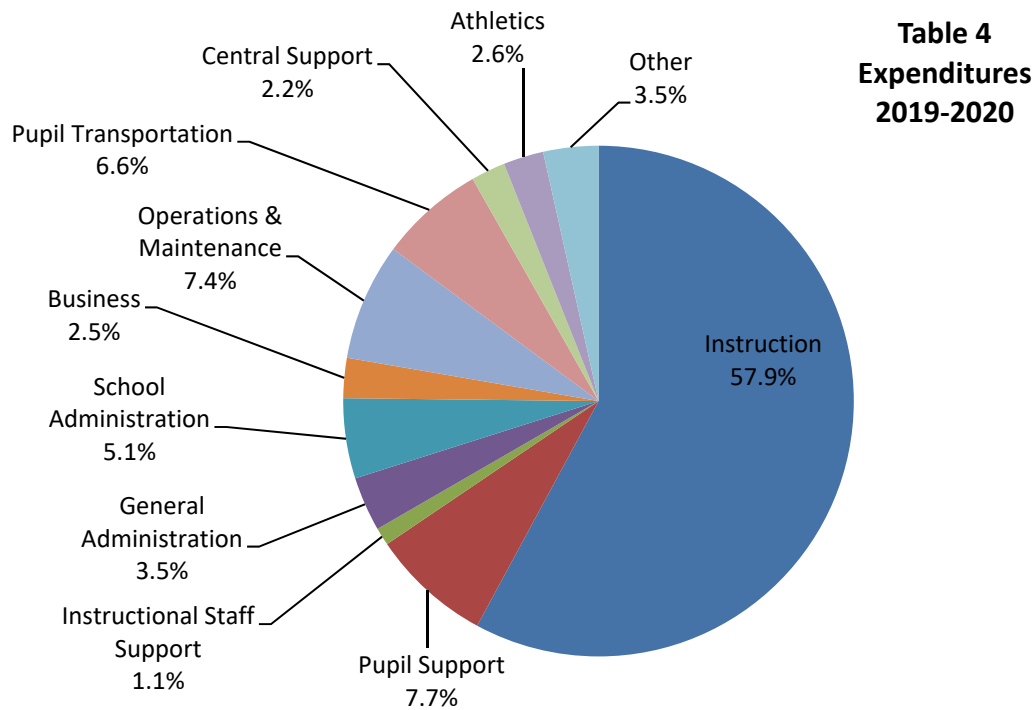
A substantial portion (81%) of the District’s revenues is received from State sources. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. Table 3 depicts the breakdown of the sources of General Fund Revenue for the District.



Since property taxes for operations and unrestricted State Aid constitute the vast majority of district operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

**Management’s Discussion and Analysis 2019-2020**

Table 4 depicts the allocation of how General Fund resources are spent. 67% of the District’s General Fund resources are spent on instruction, pupil support services, and instructional staff support. Another 11% is spent on administrative and business services necessary to efficiently operate the District, while 14% is spent for transportation and maintenance, including utilities and custodial services. The final 8% is spent on principal, interest and transfers to other funds.





## Management's Discussion and Analysis 2019-2020

### **Financial Analysis of the District's Funds**

The financial performance of the District as a whole is reflected in its governmental funds as well. The General Fund equity increased by \$517,745 during the 2019-2020 fiscal year, resulting in fund equity of \$1,385,410 at year end. The primary reasons for the change in fund balance are as follows:

### **Factors Impacting Operations**

*Student Enrollment* – The blended student count decreased by 2 students.

*Foundation allowance* - The foundation allowance was increased by \$240 per pupil for 2019-2020 from \$7,871 to \$8,111, a 3% increase.

### **General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted June 2020. (A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information section of these financial statements).

Variances between the final budget amounts and actual amounts were largely due to the following:

- Act 18 revenue – the district received an additional \$26,000 in Act 18 revenue and \$11,000 from Driver's Education program.
- State resources – the district budgeted for a proration of \$405,000 but the state did not implement a cut.
- Federal grants– The CARES Act budget was not reported due to timing differences with the approval of the grant.
- Basic programs – Health insurance enrollment was less than budgeted and supply lines were not fully expended.
- Added needs – Billback from local districts for special education services was lower than expected due to lower pupil counts in the programs and the district.
- Transportation – fuel costs were lower than expected due to reduced use due to the pandemic.

### **Original vs. Amended Budget**

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. Revisions are made during the year in order to deal with unexpected changes in revenues and expenditures. The following analysis describes the reasons for changes in the budget during the year.

*Revenues* – There was about a \$258,000 net change (increase) in the total General Fund revenue budget from the beginning to the end of the year. The significant changes in funding sources were as follows:

- The *local source* revenue budget increased \$50,000 due to additional property tax collections due to increased property valuations and \$162,000 that was received from previous year Act 18 collections.

## Management's Discussion and Analysis 2019-2020

- The *state source* revenue budget increased by about \$58,000. The increase was due to 45 more pupils than originally budgeted resulting in a gain of \$362,000, the receipt of \$32,000 more in MPSERS funding, the District received \$32,000 from the Rural District allocation, and \$59,000 for prior year special education funding adjustment. These increases were off-set by a budgeted proration of \$405,000 in state aid reductions as the state had not issued its final budget by year end and \$22,000 less in at-risk funding.
- The *federal source* revenue budget increased by \$87,000 due to an increase in Title I funding of \$45,000 and the receipt of new CARES Act funding of \$32,000.
- The *incoming transfers and other transactions* revenue budget decreased for the reduction in expected indirect cost chargeback to Food Service.

Expenditures – The significant changes by functional category from the beginning to end of year as follows:

- The *basic needs* decreased by \$58,000 due to a reduction in salary and benefits decreases of \$98,000 off-set by increases in dual enrollment and supply expenditure spending.
- The *pupil support* increased due the hiring of additional staff.
- The *operations and maintenance* increased \$32,000 to account for new capital projects.
- The *pupil transportation services* budget had a net decrease of \$76,000 due to the termination of student transportation services in March 2020 due to school closure due to COVID.
- The *outgoing transfers and other transactions* budget had an increase of \$106,000 to account for the payoff of a bus loan.



**Management’s Discussion and Analysis 2019-2020**

**Capital Assets**

At June 30, 2020, the School District had \$17,060,629 (after accumulated depreciation) invested in a broad range of capital assets, including land, construction in progress, buildings, vehicles, and furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$2,758,319 from last year. The increase is due to the addition of \$3,580,765 construction in progress, various building and land improvements, and equipment, and depreciation of \$822,446.

	<u>2020</u>	<u>2019</u>
Land	\$ 268,925	\$ 268,925
Construction in progress	596,248	1,611,000
Building and building improvements	15,462,981	11,855,194
Buses and other vehicles, furniture and equipment	<u>732,475</u>	<u>567,191</u>
Total capital assets	<u><b>\$17,060,629</b></u>	<u><b>\$ 14,302,310</b></u>

**Debt**

At the end of this year, the School District had \$18,817,689 in outstanding long-term obligations, excluding pension related liabilities. This is a net decrease of \$697,503 in long-term obligations. During the fiscal year, the district received \$293,251 of proceeds from the School Loan Revolving Fund to assist in debt service payments for general obligation bonds. We present detailed information about our long-term liabilities in the notes to the financial statements.

**Economic Factors and Next Year’s Budget**

Our elected officials and administration considered many factors when setting the School District’s 2021 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2021 fiscal year is a super blend of 75 percent of the 2019/2020 blended student count and 25 percent of the blended 10 percent of the February 2020 student count and 90 percent of the September 2020 student count, respectively. The 2021 budget was adopted in June 2020, based on an estimated number of students that will be enrolled in September 2020.

Approximately 80 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State’s ability to fund local school operations. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations.



## **Management's Discussion and Analysis 2019-2020**

For the 2020-2021 school year, the district budgeted a decrease in the per pupil foundation allowance of \$500 to \$7,611 due to budget shortfalls at the state level due to the pandemic. As of June 30, 2020, the State had not approved the final budget, so this amount could change. The District has budgeted for a drop in enrollment by 20 pupils from the previous year based on spring pupil counts.

### **Contacting the School District's Financial Management**

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact our Business Department at the Holton Public Schools Administrative Office, Holton, Michigan 49425.

Holton Public Schools  
**STATEMENT OF NET POSITION**  
June 30, 2020

	<b>Governmental activities</b>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 2,763,370
Investments	3,077,361
Receivables	6,081
Due from other governmental units	1,459,016
Inventories	19,552
Prepaid items	57,091
Total current assets	7,382,471
Noncurrent assets	
Capital assets, net	
Nondepreciable	865,173
Depreciable	16,195,456
Total noncurrent assets	17,060,629
Total assets	24,443,100
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charges on refunding	153,662
Related to other postemployment benefits	1,053,373
Related to pensions	4,380,939
Total deferred outflows of resources	5,587,974
Total assets and deferred outflows of resources	30,031,074
<b>LIABILITIES</b>	
Current liabilities	
State aid loans	1,300,000
Accounts payable and accrued liabilities	1,341,846
Due to other governmental units	36,953
Unearned revenue	77,394
Bonds and other obligations, due within one year	891,415
Total current liabilities	3,647,608
Noncurrent liabilities	
Bonds and other obligations, less amounts due within one year	17,926,274
Net other postemployment benefits liability	3,188,364
Net pension liability	14,737,215
Total noncurrent liabilities	35,851,853
Total liabilities	39,499,461
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Related to other postemployment benefits	1,234,791
Related to pensions	1,062,035
Total deferred inflows of resources	2,296,826
Total liabilities and deferred inflows of resources	41,796,287
<b>NET POSITION</b>	
Net investment in capital assets	1,554,428
Restricted for	
Capital projects	1,720,050
Debt service	1,142,085
Food service	197,475
Committed for student/school activities	121,706
Unrestricted	(16,500,957)
Total net position	<b>\$(11,765,213)</b>

The accompanying notes are an integral part of this statement.

Holton Public Schools  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2020

<i>Functions/Programs</i>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Governmental activities</u>
Governmental activities				
Instruction	\$ 5,941,531	\$ 10,995	\$ 1,751,316	\$ (4,179,220)
Support services	4,189,879	76,279	1,084,049	(3,029,551)
Food services	900,050	10,401	1,093,974	204,325
Student/school activities	139,010	158,718	-	19,708
Athletics	437,754	28,701	-	(409,053)
Interest on long-term debt	582,937	-	-	(582,937)
Total governmental activities	<u>\$ 12,191,161</u>	<u>\$ 285,094</u>	<u>\$ 3,929,339</u>	(7,976,728)
General revenues				
Property taxes				1,940,282
Grants and contributions not restricted to specific programs				5,674,415
Investment earnings				68,469
Miscellaneous				43,538
Total general revenues				<u>7,726,704</u>
Change in net position				(250,024)
Net position at beginning of year, as restated				<u>(11,515,189)</u>
Net position at end of year				<u>\$ (11,765,213)</u>

The accompanying notes are an integral part of this statement.



Holton Public Schools  
**BALANCE SHEET**  
 Governmental Funds  
 June 30, 2020

	General Fund	School Improvement Sinking Fund	2018 Capital Projects Fund	Other governmental funds	Total governmental funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,340,084	\$ 1,133,333	\$ -	\$ 289,953	\$ 2,763,370
Investments	1,138,079	-	1,832,652	106,630	3,077,361
Receivables	6,081	-	-	-	6,081
Due from other governmental units	1,289,609	-	-	169,407	1,459,016
Due from other funds	-	-	159,986	82,502	242,488
Inventories	-	-	-	19,552	19,552
Prepaid items	17,091	-	-	40,000	57,091
Total assets	<b>\$ 3,790,944</b>	<b>\$ 1,133,333</b>	<b>\$ 1,992,638</b>	<b>\$ 708,044</b>	<b>\$ 7,624,959</b>
<b>LIABILITIES</b>					
State aid loans	\$ 1,300,000	\$ -	\$ -	\$ -	\$ 1,300,000
Accounts payable	19,779	-	380,293	101,856	501,928
Accrued liabilities	742,035	-	-	-	742,035
Due to other governmental units	26,166	-	-	10,787	36,953
Due to other funds	242,488	-	-	-	242,488
Unearned revenue	75,066	-	-	2,328	77,394
Total liabilities	2,405,534	-	380,293	114,971	2,900,798
<b>FUND BALANCES</b>					
Nonspendable					
Inventories	-	-	-	19,552	19,552
Prepaid items	17,091	-	-	40,000	57,091
Restricted					
Debt service	-	1,133,333	-	106,635	1,239,968
Food service	-	-	-	197,475	197,475
Capital projects	-	-	1,612,345	107,705	1,720,050
Committed for student/school activities	-	-	-	121,706	121,706
Assigned to subsequent year's budget appropriations	353,759	-	-	-	353,759
Unassigned	1,014,560	-	-	-	1,014,560
Total fund balances	1,385,410	1,133,333	1,612,345	593,073	4,724,161
Total liabilities and fund balances	<b>\$ 3,790,944</b>	<b>\$ 1,133,333</b>	<b>\$ 1,992,638</b>	<b>\$ 708,044</b>	<b>\$ 7,624,959</b>

The accompanying notes are an integral part of this statement.

Holton Public Schools  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION**  
June 30, 2020

Total fund balance—governmental funds \$ 4,724,161

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	\$ 31,502,690	
Accumulated depreciation	<u>(14,442,061)</u>	17,060,629

Deferred charges on refunding are not capitalized and amortized  
in the governmental funds.

Deferred charges on refunding	235,699	
Accumulated amortization	<u>(82,037)</u>	153,662

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	1,053,373	
Deferred inflows of resources - related to other postemployment benefits	(1,234,791)	
Deferred outflows of resources - related to pensions	4,380,939	
Deferred inflows of resources - related to pensions	<u>(1,062,035)</u>	3,137,486

Accrued interest in governmental activities is not reported in the  
governmental funds.

(97,883)

Long-term obligations in governmental activities are not due and  
payable in the current period and are not reported in the  
governmental funds.

(36,743,268)

Net position of governmental activities

**\$ (11,765,213)**

The accompanying notes are an integral part of this statement.

Holton Public Schools  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Governmental Funds  
For the year ended June 30, 2020

	<b>General Fund</b>	<b>School Improvement Sinking Fund</b>	<b>2018 Capital Projects Fund</b>	<b>Other governmental funds</b>	<b>Total governmental funds</b>
<b>REVENUES</b>					
Local sources					
Property taxes	\$ 773,604	\$ -	\$ -	\$ 1,163,397	\$ 1,937,001
Investment earnings	11,787	-	53,155	3,527	68,469
Fees and charges	63,362	-	-	10,365	73,727
Student/school activity income	-	-	-	158,718	158,718
Other	425,662	-	15,500	203,310	644,472
Total local sources	1,274,415	-	68,655	1,539,317	2,882,387
State sources	7,462,224	-	-	19,112	7,481,336
Federal sources	497,414	-	-	1,077,407	1,574,821
Total revenues	9,234,053	-	68,655	2,635,836	11,938,544
<b>EXPENDITURES</b>					
Current					
Instruction	5,020,859	-	-	-	5,020,859
Support services	3,093,066	-	-	256,009	3,349,075
Food services	-	-	-	949,360	949,360
Athletics	200,238	-	-	-	200,238
Student/school activities	-	-	-	139,010	139,010
Capital outlay	167,540	-	-	-	167,540
Debt service					
Principal repayment	90,361	-	-	850,000	940,361
Interest and other charges	1,511	-	-	619,850	621,361
Capital projects	-	-	3,711,089	-	3,711,089
Total expenditures	8,573,575	-	3,711,089	2,814,229	15,098,893
Excess (deficiency) of revenues over (under) expenditures	660,478	-	(3,642,434)	(178,393)	(3,160,349)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	6,000	113,333	-	35,400	154,733
Transfers out	(148,733)	-	-	(6,000)	(154,733)
Loan proceeds	-	-	-	293,251	293,251
Total other financing sources (uses)	(142,733)	113,333	-	322,651	293,251
Net change in fund balances	517,745	113,333	(3,642,434)	144,258	(2,867,098)
Fund balances at beginning of year, as restated	867,665	1,020,000	5,254,779	448,815	7,591,259
Fund balances at end of year	<b>\$ 1,385,410</b>	<b>\$ 1,133,333</b>	<b>\$ 1,612,345</b>	<b>\$ 593,073</b>	<b>\$ 4,724,161</b>

The accompanying notes are an integral part of this statement.

Holton Public Schools  
**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, 2020

Net change in fund balances—total governmental funds \$ (2,867,098)

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	\$ (822,446)	
Capital outlay	<u>3,580,765</u>	2,758,319

Governmental funds report outlays for deferred charges on refunding as expenditures; in the Statement of Activities the costs are amortized over the bond period. (15,626)

Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Position. (336,106)

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. 1,032,091

Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid. 5,175

Compensated absences and other termination 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. 1,519

Some other postemployment benefits 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. 240,137

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. (1,068,435)

Change in net position of governmental activities **\$ (250,024)**

The accompanying notes are an integral part of this statement.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Holton Public Schools (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 School Improvement Sinking Fund accounts for resources accumulated and principal payments made for the 2009 School Improvement Bond.

The 2018 Capital Projects Fund accounts for financial resources to be used for the acquisition of fixed assets or construction of major capital projects from the 2018 bond.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**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, student/school activities, and safety 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 project fund accounts for financial resources to be used for the acquisition of fixed assets or construction of major capital projects.

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. 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 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.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Measurement Focus and Basis of Accounting—Continued**

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.

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

***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). 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.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2020

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

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

***Cash and Investments—Continued***

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 acquisition value at the date of donation.

Land is 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:

<u>Capital Asset Classes</u>	<u>Years</u>
Buildings and improvements	20-50
Furniture and equipment	5-20
Vehicles and equipment	8

***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.



Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

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

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

***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.

In the computation of net investment in capital assets, School Loan Revolving Fund debt is not considered to be capital related debt.

***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.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

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

***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.

***Compensated Absences***

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

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.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**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 and special revenue funds. All annual appropriations lapse at year end.

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 Business Manager 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, 2020.

**School Bond Construction Compliance**

The 2018 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan’s School Code.

Following is a summary of the revenue and expenditures in the 2018 Capital Projects Fund from the inception of the fund through June 30, 2020:

	<b><u>2018 Capital Projects Fund</u></b>
Revenue and bond proceeds	\$ 7,137,555
Expenditures	5,525,210

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2020

**NOTE C—DEPOSITS AND INVESTMENTS**

As of June 30, 2020, the School District had the following investments:

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted average maturity (Days)</b>	<b>Standard &amp; Poor's rating</b>	<b>Percent</b>
MILAF + Cash Mgmt Class	\$ 107,022	54	AAAm	3.48%
MILAF + Max Class	<u>2,970,339</u>	54	AAAm	<u>96.52%</u>
Total fair value	<u><b>\$3,077,361</b></u>			<u><b>100%</b></u>
Portfolio weighted average maturity		<u><b>54</b></u>		

The School District voluntarily invests certain excess funds in an external investment pool (Pool). The Pool utilized by the School District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external investment pool of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. The fair value of the School District's investments is the same as the value of the Pool shares.

**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 interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

**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**

In accordance with its investment policy, the School District will minimize concentration of credit risk, which 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, 2020, \$2,629,216 of the School District's bank balance of \$2,879,216 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 failure of the security issuer or backer, by limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

**Foreign currency risk**

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

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2020

**NOTE C—DEPOSITS AND INVESTMENTS—Continued**

**Fair value management**

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

**Restricted investments**

Restrictions are placed on assets by bond agreements. At June 30, 2020, the School Improvement Sinking Fund cash and cash equivalents of \$1,133,333 are in a set-a-side account and are restricted for payment of the outstanding QZAB bonds.

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2020 was as follows:

	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2019</b>	<b>Additions</b>	<b>Deductions</b>	<b>June 30, 2020</b>
<b>Capital assets, not being depreciated:</b>				
Land	\$ 268,925	\$ -	\$ -	\$ 268,925
Construction in progress	1,611,000	596,248	1,611,000	596,248
Total capital assets, not being depreciated	1,879,925	596,248	1,611,000	865,173
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	24,220,355	4,304,173	-	28,524,528
Furniture and equipment	749,211	291,344	-	1,040,555
Vehicles and equipment	1,072,434	-	-	1,072,434
Total capital assets, being depreciated	26,042,000	4,595,517	-	30,637,517
<b>Less accumulated depreciation:</b>				
Buildings and improvements	12,365,161	696,386	-	13,061,547
Furniture and equipment	578,911	49,970	-	628,881
Vehicles and equipment	675,543	76,090	-	751,633
Total accumulated depreciation	13,619,615	822,446	-	14,442,061
Total capital assets, being depreciated, net	12,422,385	3,773,071	-	16,195,456
Capital assets, net	<b>\$ 14,302,310</b>	<b>\$ 4,369,319</b>	<b>\$ 1,611,000</b>	<b>\$ 17,060,629</b>

**Depreciation**

Depreciation expense has been charged to functions as follows:

Instruction	\$ 348,768
Support services	235,684
Athletics	217,500
Food services	20,494
	<b>\$ 822,446</b>

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2020

**NOTE E—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of June 30, 2020 is as follows:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
2018 Capital Projects	General Fund	\$ 159,986
Other Governmental Funds	General Fund	<u>82,502</u>
		<b><u>\$ 242,488</u></b>

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.

**Interfund Transfers**

The General Fund transferred \$113,333 to the School Improvement Sinking Fund as a required set-aside principal installment for the QZAB bond payment. The General Fund also transferred \$35,000 to the Capital Projects Fund to fund future capital expenditures. The Food Service fund transferred \$6,000 to the General Fund to cover allowable indirect expenditures. The General Fund also transferred \$400 to the Food Service Fund to support operations.

**NOTE F—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, 2020 follows:

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
	<u>July 1, 2019</u>			<u>June 30, 2020</u>
State aid anticipation notes				
2018/2019 2.54% due August 2019	\$ 1,500,000	\$ -	\$ 1,500,000	\$ -
2019/2020 2.125% due August 2020	-	1,300,000	-	1,300,000
	<b><u>\$ 1,500,000</u></b>	<b><u>\$ 1,300,000</u></b>	<b><u>\$ 1,500,000</u></b>	<b><u>\$ 1,300,000</u></b>

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2020

**NOTE G—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 2019 School Improvement Bond bears no interest and requires the School District to make annual deposits of \$133,333 starting in August 2010 until they mature in August 2024. Notes from direct borrowings and direct placements include the School Loan Revolving fund.

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

	<b>Balance July 1, 2019</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2020</b>	<b>Due within one year</b>
<b>Governmental activities</b>					
Bonds	\$ 17,125,000	\$ -	\$ 850,000	\$ 16,275,000	\$ 890,000
Premium	1,088,938	-	91,730	997,208	-
Notes from direct borrowings and direct placements	1,275,760	336,106	90,360	1,521,506	-
Compensated absences	25,494	2,170	3,689	23,975	1,415
	<b>\$ 19,515,192</b>	<b>\$ 338,276</b>	<b>\$ 1,035,779</b>	<b>\$ 18,817,689</b>	<b>\$ 891,415</b>

The additions for notes from direct borrowings and direct placements represent \$293,251 of new draws and \$42,855 of accrued interest on the School Loan Revolving Fund.

The governmental activities refunding bonds and School Building and Site 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 placements are comprised of notes payable to the State of Michigan under the School Loan Revolving Fund which are secured by future state aid and property tax revenues of the School District. In the event of default, the State of Michigan can withhold future state aid payments.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**NOTE G—LONG-TERM OBLIGATIONS—Continued**

General obligation bonds and notes from direct borrowing and direct placements consist of the following as of June 30, 2020:

	<b>Interest Rate</b>	<b>Date of Maturity</b>	<b>Balance</b>
General obligation bonds			
2009 School Improvement Bond	0.0%	Aug 2024	\$ 1,700,000
2015A Refunding General Obligation Bond	4.0%	May 2028	3,250,000
2015B Refunding General Obligation Bond	3.0-5.0%	May 2030	4,925,000
2018 School Building and Site Bond	4.0%	May 2044	6,400,000
			<b>\$ 16,275,000</b>
Notes from direct borrowings and direct placements			
School Loan Revolving Fund	3.1%	May 2036	<b>\$ 1,521,506</b>

The annual requirements of principal and interest to amortize the bonds and notes from direct borrowings and direct placements outstanding as of June 30, 2020 follow:

<u>Year ended June 30,</u>	<b>Governmental activities</b>			
	<b>Bonds</b>		<b>Notes from Direct Borrowings and Direct Placements</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2021	\$ 890,000	\$ 587,300	\$ -	\$ -
2022	920,000	556,400	-	-
2023	960,000	523,050	-	-
2024	1,005,000	480,900	-	-
2025	2,750,000	436,550	-	-
2026-2030	5,100,000	1,510,400	-	-
2031-2035	1,420,000	820,200	-	-
2036-2040	1,680,000	516,000	1,521,506	711,691
2041-2044	1,550,000	158,000	-	-
	<b>\$ 16,275,000</b>	<b>\$ 5,588,800</b>	<b>\$ 1,521,506</b>	<b>\$ 711,691</b>



Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**NOTE H—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.

***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.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued**

***Pension Reform 2012—Continued***

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. 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.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued**

**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.

**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, 2018 valuation will be amortized over a 20-year period for the 2019 fiscal year.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2020

**NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued**

**Contributions – Pension and OPEB—Continued**

The schedules below summarize the contribution rates in effect for the System’s fiscal year ended September 30, 2019.

<b>Pension Contribution Rates</b>		
<b>Benefit Structure</b>	<b>Member</b>	<b>Employer</b>
Basic	0.0 - 4.0 %	18.25 %
Member Investment Plan	3.0 - 7.0	18.25
Pension Plus Plan	3.0 - 6.4	16.46
Pension Plus 2 Plan	6.2	19.59
Defined Contribution	0.0	13.39

<b>OPEB Contribution Rates</b>		
<b>Benefit Structure</b>	<b>Member</b>	<b>Employer</b>
Premium Subsidy	3.0 %	7.93 %
Personal Healthcare Fund	0.0	7.57

The School District’s pension contributions for the year ended June 30, 2020 were equal to the required contribution total. Pension contributions were approximately \$1,396,000 including Section 147c contributions.

For the year ended June 30, 2020, the School District and employee defined contribution plan contributions were approximately \$18,200 and \$36,600 respectively.

The School District’s OPEB contributions for the year ended June 30, 2020 were equal to the required contribution total. OPEB contributions were approximately \$413,000.

**Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources**

At June 30, 2020, the School District reported a liability of \$14,737,215 for its proportionate share of the net pension liability and a liability of \$3,188,364 for its proportionate share of the net OPEB liability.

The net pension and OPEB liabilities were measured as of September 30, 2019, 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, 2018. 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, 2019 and 2018, the School District’s pension proportion was 0.04450 and 0.04467 percent, respectively. At September 30, 2019 and 2018, the School District’s OPEB proportion was 0.04442 and 0.04447 percent, respectively.

For the year ended June 30, 2020, the School District recognized pension expense of \$2,302,710 and OPEB expense of \$79,450.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2020

**NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued**

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

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

	<u>Pension</u>		<u>OPEB</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual experience	\$ 66,057	\$ 61,453	\$ -	\$ 1,169,901
Changes of assumptions	2,885,557	-	690,854	-
Net difference between projected and actual earnings on plan investments	-	472,303	-	55,447
Changes in proportion and differences between School District contributions and proportionate share of contributions	139,603	40,401	168	9,443
State of Michigan Section 147c UAAL rate stabilization state aid payments subsequent to the measurement date	-	487,878	-	-
School District contributions subsequent to the measurement date	1,289,722	-	362,351	-
<b>Total</b>	<b>\$ 4,380,939</b>	<b>\$ 1,062,035</b>	<b>\$ 1,053,373</b>	<b>\$ 1,234,791</b>

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2020

**NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued**

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, 2021. 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, 2021. 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
2021	\$ 1,044,242	\$ (150,534)
2022	791,176	(150,534)
2023	487,651	(122,878)
2024	193,991	(79,642)
2025	-	(40,181)

**Actuarial assumptions**

***Valuation Assumptions***

Investment rate of return –	6.8% a year for the MIP and Basic plans 6.8% a year for the Pension Plus plan 6% a year for the Pension Plus 2 plan 6.95% 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 3.5% 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, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

***Experience Study***

The annual actuarial valuation report of the System used for these statements is dated September 30, 2018. Assumption changes as a result of an experience study for the 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.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2020

**NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued**

***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:

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

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

***Rate of return***

For the fiscal year ended September 30, 2019, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 5.14% and 5.37% on pension plan and OPEB plan investments, respectively.

***Discount rate***

In the current year, the discount rates used to measure the total pension and OPEB liabilities were 6.8 percent (6.8 percent for the Pension Plus plan and 6 percent for the Pension Plus 2 plan), and 6.95 percent, respectively. The discount rates used to measure the total pension and OPEB liability as of June 30, 2019 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 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.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2020

**NOTE H—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 6.8 percent (6.8 percent for the 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:

<b>1% Lower</b> <b>(5.8% / 5.8% / 5.0%)</b>	<b>Discount Rate</b> <b>(6.8% / 6.8% / 6.0%)</b>	<b>1% Higher</b> <b>(7.8% / 7.8% / 7.0%)</b>
\$ 19,159,322	\$ 14,737,215	\$ 11,071,136

**Sensitivity of the net OPEB liability to changes in the discount rate**

The following presents the School District’s proportionate share of the net OPEB liability calculated using the discount rate of 6.95 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:

<b>1% Lower</b> <b>(5.95%)</b>	<b>Discount Rate</b> <b>(6.95%)</b>	<b>1% Higher</b> <b>(7.95%)</b>
\$ 3,911,007	\$ 3,188,364	\$ 2,581,544

**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:

<b>1% Lower</b>	<b>Current Healthcare Cost Trend Rate</b>	<b>1% Higher</b>
\$ 2,555,817	\$ 3,188,364	\$ 3,910,921

**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](http://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.



Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**NOTE I—COMMITMENTS AND CONTINGENCIES**

**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.

**Related Party Transactions**

The School District contracted with a company owned by a board member to provide food service totaling approximately \$1,500.

**Commitments**

As of June 30, 2020, the School District had approved commitments for construction and improvements of approximately \$1,266,200.

**NOTE J—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 premiums 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 and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2020 or any of the prior three years.

**NOTE K—SUBSEQUENT EVENTS**

**State Aid Anticipation Note**

In August 2020, the School District received the proceeds of a \$1,560,000 State of Michigan (State) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity in August 2021 and bears interest at the rate of 0.87 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.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**NOTE K—SUBSEQUENT EVENTS—Continued**

**COVID-19**

The COVID-19 pandemic that the world is experiencing is unprecedented. It is nearly impossible to fully understand the impact that it will have on the economy and on the School District's operations. As of September 30, 2020, the School District is in the process of implementing risk mitigation tactics including all aspects of the School District's activities related to public school education, relationships with local, state, and federal government funding sources, compliance with the requirements of these funding sources and with business transactions with customers, vendors and human interaction within and outside of the School District.

**State Aid**

On July 31, 2020, the Governor signed Public Act 146 of 2020 which retroactively reduced the per pupil foundation allowance by \$175 per pupil for the 2019-2020 fiscal year. This reduced the School District's 2019-2020 state aid revenue by \$146,326 and was deducted from the August 20, 2020 state aid payment.

**NOTE L—TAX ABATEMENTS**

GASB Statement 77—*Tax Abatement Disclosures* was issued by the GASB in August 2015 and is effective for the School District's 2017 fiscal year. This Statement requires School Districts to disclose the following information about tax abatement agreements entered into by other governments that reduce the School District's tax revenues: the names of the governments that entered into the agreements, the specific taxes being abated, and the gross dollar amount of taxes abated during the period. For the current fiscal year there were no material agreements entered into by local taxing authorities that would require disclosure.

**NOTE M—CHANGE IN ACCOUNTING PRINCIPLE**

The net position of the governmental activities and other governmental funds were restated effective July 1, 2019 to reflect the implementation of GASB Statement No. 84, *Fiduciary Activities*.

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and is effective for the District's 2021 year end. The School District early implemented this statement as it was originally effective with the 2020 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

Holton Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**NOTE M—CHANGE IN ACCOUNTING PRINCIPLE—Continued**

The restatement of the net position at beginning of the year and fund balance at beginning of the year is as follows:

	<b>Fund balances</b>	
	<b>Other governmental Funds</b>	<b>Total governmental funds</b>
Fund balances at beginning of year, as previously stated	\$ 346,817	\$ 7,489,261
Adoption of GASB Statement 84	101,998	101,998
Fund balances at beginning of year, as restated	<b>\$ 448,815</b>	<b>\$ 7,591,259</b>
		<b>Governmental activities</b>
Net position at beginning of year, as previously stated		\$ (11,617,187)
Adoption of GASB Statement 84		101,998
Net position at beginning of year, as restated		<b>\$ (11,515,189)</b>

**NOTE N—UPCOMING ACCOUNTING PRONOUNCEMENTS**

GASB Statement 87—*Leases* was issued by the GASB in June 2017 and will be effective for the School District’s 2022 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**

Holton Public Schools  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
 General Fund  
 For the year ended June 30, 2020

	<u>Budgeted amounts</u>		<u>Actual</u>	<b>Variance with final budget- positive (negative)</b>
	<u>Original</u>	<u>Final</u>		<u>(negative)</u>
<b>REVENUES</b>				
Local sources	\$ 1,113,990	\$ 1,229,757	\$ 1,274,415	\$ 44,658
State sources	7,155,845	7,213,840	7,462,224	248,384
Federal sources	446,386	533,274	497,414	(35,860)
Incoming transfers and other transactions	9,000	6,500	6,000	(500)
Total revenues	8,725,221	8,983,371	9,240,053	256,682
<b>EXPENDITURES</b>				
Instruction				
Basic programs	3,529,160	3,471,424	3,433,054	38,370
Added needs	1,655,903	1,640,396	1,587,805	52,591
Support services				
Pupil	685,773	724,214	723,554	660
Instructional staff	99,817	86,479	87,548	(1,069)
General administration	309,265	308,951	308,587	364
School administration	454,533	432,971	431,020	1,951
Business	227,401	221,004	220,610	394
Operations and maintenance	665,383	697,909	671,129	26,780
Pupil transportation services	595,569	519,745	485,651	34,094
Central	194,562	166,748	164,967	1,781
Athletics	228,602	203,848	200,238	3,610
Outgoing transfers and other transactions	312,198	418,551	408,145	10,406
Total expenditures	8,958,166	8,892,240	8,722,308	169,932
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (232,945)</u>	<u>\$ 91,131</u>	517,745	<u>\$ 426,614</u>
Fund balance at beginning of year			867,665	
Fund balance at end of year			<u>\$ 1,385,410</u>	

Holton Public Schools  
**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)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
School District's proportion of the net pension liability (%)	0.04450%	0.04467%	0.04456%	0.04329%	0.04257%	0.04450%	-	-	-	-
School District's proportionate share of the net pension liability	\$ 14,737,215	\$ 13,427,517	\$ 11,547,797	\$ 10,800,029	\$ 10,397,641	\$ 9,801,058	\$ -	\$ -	\$ -	\$ -
School District's covered payroll	\$ 5,180,614	\$ 4,972,184	\$ 3,930,346	\$ 3,679,677	\$ 3,542,845	\$ 3,773,909	\$ -	\$ -	\$ -	\$ -
School District's proportionate share of the net pension liability as a percentage of its covered payroll	284.47%	270.05%	293.81%	293.50%	293.48%	259.71%	-	-	-	-
Plan fiduciary net position as a percentage of the total pension liability	60.31%	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.

**Holton Public Schools**  
**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)

	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Statutorily required contributions	\$ 908,261	\$ 847,614	\$ 824,699	\$ 708,875	\$ 808,711	\$ 879,894	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the statutorily required contributions	908,261	847,614	824,699	708,875	808,711	879,894	-	-	-	-
Contribution deficiency (excess)	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
School District's covered payroll	\$ 5,211,965	\$ 5,021,990	\$ 4,840,202	\$ 3,981,240	\$ 3,653,572	\$ 3,555,010	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll	17.43%	16.88%	17.04%	17.81%	22.13%	24.75%	-	-	-	-

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.

Holton Public Schools  
**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)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
School District's proportion of the net OPEB liability (%)	0.04442%	0.04447%	0.04450%	-	-	-	-	-	-	-
School District's proportionate share of the net OPEB liability	\$ 3,188,364	\$ 3,534,696	\$ 3,940,843	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District's covered payroll	\$ 5,180,614	\$ 4,972,184	\$ 3,930,346	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District's proportionate share of the net OPEB liability as a percentage of its covered payroll	61.54%	71.09%	100.27%	-	-	-	-	-	-	-
Plan fiduciary net position as a percentage of the total OPEB liability	48.46%	42.95%	36.39%	-	-	-	-	-	-	-

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.



**Holton Public Schools**  
**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)

	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Statutorily required contributions	\$ 413,434	\$ 392,235	\$ 359,118	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the statutorily required contributions	413,434	392,235	359,118	-	-	-	-	-	-	-
Contribution deficiency (excess)	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
School District's covered payroll	\$ 5,211,965	\$ 5,021,990	\$ 4,840,202	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll	7.93%	7.81%	7.42%	-	-	-	-	-	-	-

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.

Holton Public Schools  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**Notes to Required Supplementary Information**  
For the year ended June 30, 2020

Pension Information

**Benefit Changes** – there were no changes of benefit terms in 2019.

**Changes of assumptions** – the assumption changes for 2019 were:

Discount rate for MIP and Basic plans decreased to 6.80% from 7.05%.

Discount rate for Pension Plus decreased to 6.80% from 7.00%.

OPEB Information

**Benefit changes** – there were no changes of benefit terms in 2019.

**Changes of assumptions** – the assumption changes for 2019 were:

Discount rate decreased to 6.95% from 7.15%.

Healthcare cost trend rate increased to 7.50% Year 1 graded to 3.50% Year 12 from 7.50% Year 1 graded to 3.00% Year 12.