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INDEPENDENT AUDITOR'S REPORT

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock 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

As described in Note P to the financial statements, the District 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 requirements on pages 6 through 11 and 41 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The additional information on pages 46 to 49 are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional information on pages 46 to 49 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 20, 2020 on our consideration of the Hancock Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hancock Public Schools internal control over financial reporting and compliance.

*Rukkila, Negro and Associates,
Certified Public Accountants, PC*

November 20, 2020

**HANCOCK PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020**

This section of Hancock Public Schools's annual financial report presents management's discussion and analysis of the District's financial performance during the year ended June 30, 2020. Please read it in conjunction with the District's financial statements, which immediately follows this section.

Financial Highlights

Food Service Fund ended the year with a fund balance of \$37,723. The District continues to record money transferred from the general fund as a due from the general fund and not an incoming transfer.

Overview of the Financial Statements

This annual report consists of four parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Position and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data; Required Supplementary Information includes pension and OPEB information schedules; Other Supplementary Information follows and includes combining and individual fund statements and schedules.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities and deferred inflow of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

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

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base and the condition of school buildings and other facilities.

**HANCOCK PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020**

District-wide Statements (Continued)

In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying debt, and its capital projects funds) or to show that it is properly using certain revenues (like school lunch).

The District has only governmental funds. Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Required supplementary information, other than Management's Discussion and Analysis, provides information about the required budgetary comparison information on the General Fund.

Government-Wide Financial Analysis

Net position serves as an indicator of the District's financial position and overall performance. As shown on the following table, total liabilities exceeded assets by \$8,549,391 for the District's primary government.

Net investment in capital assets (land, building, and equipment) make up the largest portion of the District's total net position. These capital assets are used to provide services to the general public and are not available for future spending. Even though net investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

**HANCOCK PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020**

	Net Position	
	<u>2020</u>	<u>2019</u>
Assets		
Current and other assets	\$ 2,476,740	\$ 2,330,797
Restricted cash	246,840	366,100
Capital assets - Net of accumulated depreciation	<u>13,539,488</u>	<u>13,924,399</u>
Total assets	<u>16,263,068</u>	<u>16,621,296</u>
Deferred outflows	3,556,343	3,606,389
Liabilities		
Current liabilities	3,004,078	3,194,826
Long-term liabilities	9,209,802	10,559,132
Net pension liability	11,802,415	11,056,969
Net OPEB liability	<u>2,501,773</u>	<u>2,925,097</u>
Total liabilities	<u>26,518,068</u>	<u>27,736,024</u>
Deferred inflows	1,850,292	1,624,901
Net position		
Net investment in capital assets	2,976,060	2,058,811
Restricted debt service	262,154	284,446
Restricted capital project	229,760	86,919
Restricted food service	37,723	-
Unrestricted	<u>(12,055,088)</u>	<u>(11,488,628)</u>
Total net position	<u>\$ (8,549,391)</u>	<u>\$ (9,058,452)</u>

As shown on the following table the District's net position changed by \$509,061. The current to prior year change in governmental activities is due to an increase in overall revenues of \$306,219 mainly due to increases local and state revenue and an increase in overall expenditures of \$573,665.

	Change in Net Position	
	<u>2020</u>	<u>2019</u>
Program Revenues		
Charges for services	\$ 148,225	\$ 145,176
Grants and contributions	1,594,092	1,313,805
General Revenues		
Taxes	3,208,961	3,160,800
State foundation allowance	4,332,333	4,327,315
Other	<u>60,372</u>	<u>90,668</u>
Total revenues	<u>9,343,983</u>	<u>9,037,764</u>
Functions/program expenses		
Instructions	5,279,955	5,097,594
Support services	2,500,473	2,227,507
Community services	391,119	278,680
School food services	164,292	191,330
Athletics	10,598	14,604
Student activities	71,263	-
Interest on long-term debt	408,170	450,642
Other debt service	<u>9,052</u>	<u>900</u>
Total expenses	<u>8,834,922</u>	<u>8,261,257</u>
Change in net position	509,061	776,507
Net position - Beginning, restated	<u>(9,058,452)</u>	<u>(9,834,959)</u>
Net position - Ending	<u>\$ (8,549,391)</u>	<u>\$ (9,058,452)</u>

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2020

NOTE C - DEPOSITS AND INVESTMENT (Continued)

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities</u>	<u>Rating</u>	<u>Rating Organization</u>
General Fund				
Michigan Liquid Asset Fund	<u>\$ 56,691</u>	*	AAAm	Standards & Poor
*Portfolio weighted average maturity 1 day maturity equals .0027, one year equals 1.00				

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 is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2020, the fair value of the District's investments is the same as the value of the pool shares.

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.

There are no limitations or restrictions on participant withdrawals for the investment pools in the Michigan Liquid Asset Fund that are recorded at amortized cost except that there is a one-day minimum investment period and investment may not be redeemed for at least 14 calendar days with the exception of direct investments of funds distributed by the State of Michigan. Redemption made prior to the end of the applicable 14-day period are subject to a penalty equal to 15 days' interest on the amount so redeemed.

NOTE D - CAPITAL ASSETS

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

	<u>Balance July 01, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2020</u>
Capital assets, not being depreciated				
Land	\$ 171,938	\$ -	\$ -	\$ 171,938
Capital assets, being depreciated				
Buildings and additions	22,083,002	\$ 54,459	\$ -	22,137,461
Improvements other than building	571,225	-	-	571,225
Equipment and furniture	1,970,427	19,796	519,117	1,471,106
Vehicles	31,022	-	-	31,022
Subtotal	<u>24,655,676</u>	<u>\$ 74,255</u>	<u>\$ 519,117</u>	<u>24,210,814</u>
Accumulated depreciation				
Building and additions	8,393,235	\$ 447,822	\$ -	8,841,057
Improvements other than building	557,263	2,062	-	559,325
Equipment and furniture	1,921,695	9,282	519,117	1,411,860
Vehicles	31,022	-	-	31,022
Subtotal	<u>10,903,215</u>	<u>\$ 459,166</u>	<u>\$ 519,117</u>	<u>10,843,264</u>
Net capital assets being depreciated	<u>13,752,461</u>			<u>13,367,550</u>
Net capital assets	<u>\$ 13,924,399</u>			<u>\$ 13,539,488</u>

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2020

NOTE D - CAPITAL ASSETS (Continued)

Depreciation expense was charged to activities of the District as follows:

Governmental activities		
Athletic	\$	1,572
Instruction		455,156
Operations and maintenance		2,438
Total governmental	\$	<u>459,166</u>

NOTE E - RECEIVABLES

Receivables at year end that are expected to be collected within one year consist of the following:

	<u>General</u>	<u>Food Service</u>	<u>Total</u>
Due from governmental units - state	\$ 846,042	\$ 62,031	\$ 908,073
Accounts receivable	<u>26,238</u>	<u>52,260</u>	<u>78,498</u>
Total payables	<u>\$ 872,280</u>	<u>\$ 114,291</u>	<u>\$ 986,571</u>

NOTE F - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. There were no transfers between funds as of June 30, 2020.

<u>Fund</u>	<u>Inter-fund Receivable</u>	<u>Fund</u>	<u>Inter-fund Payable</u>
General	\$ 155,232	Food Service	\$ 155,232
Debt Service	<u>15,314</u>	General	<u>15,314</u>
Total	<u>\$ 170,546</u>	Total	<u>\$ 170,546</u>

NOTE G - ACCRUED EXPENSES AND SALARIES PAYABLE

Accrued liabilities as of June 30, 2020, for the District's fund financial statements in the general fund, are as follows:

<u>Payables</u>	<u>General</u>
Salaries payable	\$ 291,279
Accrued expenses	<u>171,921</u>
Total payables	<u>\$ 463,200</u>

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2020

NOTE H - LONG TERM DEBT

Michigan Finance Authority School Loan Fund:

On August 20, 2019, the District entered into two notes with the Michigan Finance Authority School Loan Fund.

- Revenue Note Series 2019A-1 is for \$101,300. The interest rate on the Note shall not exceed 1.3 % per annum. The note matures on August 20, 2020.
- Revenue Note Series 2019A-2 is for \$1,013,000. The interest rate on the Note shall not exceed 1.3% per annum. The note matures on August 20, 2020.

There are bond issuance costs of \$5,448 and interest expense of \$14,300. The loans, which are pledged by future state aid payments, provided funds for general operating expenditures.

2012 Refunding Bonds

On December 12, 2012, the School District issued general obligation bonds of \$5,400,000. Proceeds from this bond issue were used to refund the Michigan Department of Treasury’s School Bond Qualification and Loan Program loan.

Optional Redemption: The Bonds or portions of the Bonds in multiples of \$5,000 maturing on or after May 1, 2021, are subject to redemption at the option of the School District in such order as the School District may determine and by lot within any maturity, on any date occurring on or after May 1, 2021, at par plus accrued interest to the date fixed for redemption.

The Bonds due May 1, 2021 are term bonds subject to mandatory redemption in part, by lot, on the redemption dates and in the principal amounts set forth below and at the redemption price equal to the principal amount thereof, without premium, together with interest thereon to the redemption date.

Fiscal Year	November 1	May 1		Total
	Interest	Interest	Principal	
2020-2021	\$ 36,729	\$ 36,729	\$ 795,000	\$ 868,458
2021-2022	26,593	26,593	890,000	943,186
2022-2023	14,355	14,355	990,000	1,018,710
	<u>\$ 77,677</u>	<u>\$ 77,677</u>	<u>\$ 2,675,000</u>	<u>\$ 2,830,354</u>

2015 Refunding Bonds

On February 18, 2015, the School District issued general obligation bonds of \$4,295,000. Proceeds from this bond issue were used to refund the 2004 Refunding Bonds and the 2002 Refunding Bonds.

Optional Redemption: The Bonds or portions of the Bonds in multiples of \$5,000 maturing on or after May 1, 2025, are subject to redemption at the option of the School District in such order as the School District may determine and by lot within any maturity, on any date occurring on or after May 1, 2024, at par plus accrued interest to the date fixed for redemption.

The Bonds due May 1, 2025 are term bonds subject to mandatory redemption in part, by lot, on the redemption dates and in the principal amounts set forth below and at the redemption price equal to the principal amount thereof, without premium, together with interest thereon to the redemption date.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2020

NOTE H - LONG TERM DEBT (Continued)

Fiscal Year	November 1	May 1		Total
	Interest	Interest	Principal	
2020-2021	\$ 33,556	\$ 33,556	\$ 295,000	\$ 362,112
2021-2022	27,656	27,656	280,000	335,312
2022-2023	22,056	22,056	265,000	309,112
2023-2024	16,756	16,756	315,000	348,512
2024-2025	10,456	10,456	315,000	335,912
2025-2026	5,338	5,338	305,000	315,676
	<u>\$ 115,818</u>	<u>\$ 115,818</u>	<u>\$ 1,775,000</u>	<u>\$ 2,006,636</u>

2016 Refunding Bonds

On April 14, 2016, the School District issued general obligation bonds of \$6,550,000. Proceeds from this bond issue were used to advance refund a portion of the 2008 School Building and Site Bonds, dated July 8, 2008, which are due and payable May 1, 2021, May 1, 2024, May 1, 2027 and May 1, 2033, inclusive and to pay the costs of issuing the Bonds. As a result, the refunded bonds are considered to be defeased and the liability as of April 13, 2016 has been removed from the government-wide statement of net position. The refunding was undertaken to reduce annual debt service payments. The net savings is \$896,035 and the net present value savings is \$774,773. The average annual savings is \$52,708, the net savings with bond term of 17 years.

Optional Redemption: The Bonds maturing on or after May 1, 2027, shall be subject to redemption at the option of the School District in such order of maturity as the School District may determine and within a single maturity by lot, on any date on or after May 1, 2026 at par plus accrued interest to the date fixed for redemption.

Fiscal Year	November 1	May 1		Total
	Interest	Interest	Principal	
2020-2021	\$ 240,400	\$ 240,400	\$ 265,000	745,800
2021-2022	229,800	229,800	245,000	704,600
2022-2023	220,000	220,000	230,000	670,000
2023-2024	210,800	210,800	455,000	876,600
2024-2025	192,600	192,600	470,000	855,200
2025-2026	173,800	173,800	490,000	837,600
2026-2027	154,200	154,200	510,000	818,400
2027-2028	133,800	133,800	525,000	792,600
2028-2033	342,000	342,000	2,820,000	3,504,000
	<u>\$ 1,897,400</u>	<u>\$ 1,897,400</u>	<u>\$ 6,010,000</u>	<u>\$ 9,804,800</u>

Long-term liabilities activity for the fiscal year ended June 30, 2020, was as follows:

	Balance July 01, 2019	Increase	Decrease	Balance June 30, 2020	Current Portion
2016 Refunding Bond	\$ 6,270,000	\$ -	\$ 260,000	\$ 6,010,000	\$ 265,000
2012 Refunding Bond	3,395,000	-	720,000	2,675,000	795,000
2015 Refunding Bond	2,085,000	-	310,000	1,775,000	295,000
Michigan Finance Authority	1,212,964	1,114,300	1,280,497	1,046,767	1,046,767
	12,962,964	1,114,300	2,570,497	11,506,767	<u>\$ 2,401,767</u>
Accrued Interest	119,411	-	3,823	115,588	
Accrued Benefits	99,132	5,670	-	104,802	
Total	<u>\$ 13,181,507</u>	<u>\$ 1,119,970</u>	<u>\$ 2,574,320</u>	<u>\$ 11,727,157</u>	

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2020

NOTE H - LONG TERM DEBT (Continued)

As of June 30, 2020, the aggregate maturities of long-term debt are as follows:

Fiscal Year	Interest	Principal	Total
2020-2021	\$ 635,670	\$ 2,401,767	\$ 3,037,437
2021-2022	568,098	1,415,000	1,983,098
2022-2023	512,822	1,485,000	1,997,822
2023-2024	455,112	770,000	1,225,112
2024-2025	406,112	785,000	1,191,112
2025-2026	358,276	795,000	1,153,276
2026-2027	308,400	510,000	818,400
2027-2028	267,600	525,000	792,600
2028-2033	684,000	2,820,000	3,504,000
	<u>\$ 4,196,090</u>	<u>\$ 11,506,767</u>	<u>\$ 15,702,857</u>

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS

Plan Description

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

The System'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).

The System's health plan provides all eligible 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).

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

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Actuarial Assumptions

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

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2020

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)

Additional information as of the latest actuarial valuation follows:

Valuation date	September 30, 2018
Actuarial cost method	Entry age, normal
Wage inflation rate	2.75
Investment rate of return:	
Pension	6.00%-6.80%
OPEB	7.15%
Projected salary increases	2.75 - 11.55%, including wage inflation at 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
Mortality	Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006. Active members: RP-2014 Male and Female Healthy Employee Annuitant Mortality Tables, scaled by 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Other OPEB Assumptions:	
Opt out assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverage continuing after the retiree's death
Coverage election at retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Notes:

- 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 valuations beginning with the September 30, 2017 valuation. The total pension and OPEB liability as of September 30, 2019, is based on the results of an actuarial valuation date of September 30, 2018, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for pension liabilities is the average of the expected remaining service lives of all employees in years which is 4.4977 for non-university employers.
- Recognition period for pension assets in years is 5.0000
- Recognition period for OPEB liabilities is the average of the expected remaining service lives of all employees in years which is 5.6018 for non-university employers.
- Recognition period for OPEB assets in years is 5.0000
- Full actuarial assumptions are available in the 2019 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2020

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan and OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension 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 asset allocation as of September 30, 2019 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

* Long term rate of return does not include 2.3% inflation

Rate of Return

For the fiscal year ended September 30, 2019, the annual money-weighted rate of return on pension plan investment and OPEB plan investment net of pension plan and OPEB investment expense, was 5.14% and 10.75% respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). A discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.95%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

Based on these assumptions, the pension plan's fiduciary net position and the OPEB plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total OPEB liability.

**HANCOCK PUBLIC SCHOOLS
 NOTES TO FINANCIAL STATEMENTS - June 30, 2020**

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)

PENSION PLAN

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 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 if applicable. 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.

Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under the 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 September 30, 2018 valuation will be amortized over a 20-year period for fiscal year beginning October 1, 2018 and ending September 30, 2038.

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

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

Required contributions to the pension plan from Hancock Public Schools were \$946,762 for the year ended September 30, 2019.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2020

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)

Pension Liabilities

At June 30, 2020, the District reported a liability of \$11,802,415 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2018. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2019 and 2018 the District's proportion was .03564% and .03678%, respectively.

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

For the year ended June 30, 2020, the District recognized total pension expense of \$1,775,560. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

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

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Difference between expected and actual experience	\$ 52,902	\$ 49,215
Changes of assumptions	2,310,921	-
Net difference between projections and actual earnings on pension plan investments	-	378,247
Changes in proportion and differences between employer contributions and proportionate share of contributions	7,725	304,018
District's contributions subsequent to the measurement date	449,789	-
Total	<u>\$ 2,821,337</u>	<u>\$ 731,480</u>

\$449,789 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

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

<u>Year Ended September 30</u>	<u>Amount</u>
2020	\$ 671,121
2021	\$ 518,030
2022	\$ 324,338
2023	\$ 126,579

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2020

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability, calculated using a discount rate of 6.80% for the Basic and Member Investment Plan, 6.80% for the Pension Plus Plan, and 6.0% for the Pension Plus 2 Plan as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

	<u>1% Lower</u>	<u>Discount Rate</u>	<u>1% Higher</u>
District's proportionate share of the net pension liability	\$ 15,343,895	\$ 11,802,415	\$ 8,866,407

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued 2019 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payable to the Pension Plan

At year end the District is current on all required pension plan payments. Amounts accrued at year end were \$125,712. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

OPEB PLAN

Benefits Provided

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

**HANCOCK PUBLIC SCHOOLS
 NOTES TO FINANCIAL STATEMENTS - June 30, 2020**

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)

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

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

Contributions

Employers 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 OPEB 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 beginning October 1, 2018 and ending September 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2019.

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

Required contributions to the OPEB plan from Hancock Public Schools were \$239,314 for the year ended September 30, 2019.

OPEB Liabilities

At June 30, 2020, the District reported a liability of \$2,501,773 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2018. The District's proportion of the net OPEB liability was determined by dividing each employer’s statutorily required OPEB contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2019 and 2018 the District's proportion was .034854% and .03698%, respectively.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2020

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)

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

For the year ended June 30, 2020, the District recognized total OPEB expense of \$29,803. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

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

	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ -	\$ 917,971
Changes of assumptions	542,084	-
Net difference between policies and actual earnings on OPEB plan investments	-	43,507
Changes in proportion and differences between reporting using contributions and proportionate share of contributions	-	157,334
District's contributions subsequent to the measurement date	192,922	-
Total	<u>\$ 735,006</u>	<u>\$ 1,118,812</u>

\$192,922 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

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

Year Ended September 30	Amount
2020	\$ (150,656)
2021	\$ (150,656)
2022	\$ (128,887)
2023	\$ (93,856)
2024	\$ (52,673)

Sensitivity of the District's Proportionate Share of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents District's proportionate share of the net OPEB liability calculated using the discount rate of 6.95%, as well as what 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 higher:

	1% Decrease	Discount Rate	1% Increase
District's proportionate share of the net pension liability	\$ 3,068,801	\$ 2,501,773	\$ 2,025,628

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2020

NOTE I- MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)

Sensitivity of the Net OPEB Liability to Healthcare Cost Trend Rate

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

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
District's proportionate share of the net pension liability	\$ 2,005,441	\$ 2,501,773	\$ 3,068,733

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2019 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschool

Payable to the OPEB Plan

At year end the District is current on all required OPEB payments. Amounts accrued at year end were \$24,291. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

NOTE J - 403(b) RETIREMENT PLAN

The District has a 403(b) plan which is a qualified tax sheltered annuity plan for the benefit of eligible employees. The plan is self administered by the District with a plan year ending December 31. Participants can invest in annuity contracts or custodial accounts which invest in mutual funds. The District is not required to make contributions. Distributions are governed by IRS regulations.

NOTE K - RECONCILIATION OF MDE GRANT REPORTS

The amounts reported as current payments on MDE grant reports prepared by the State of Michigan, reconcile with the federal revenue on the Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances on page 16 as follows:

Total current payments per MDE Reports	\$ 382,280
Current year grant receivables	114,291
USDA Commodities	<u>25,672</u>
Total Federal Financial Assistance	<u>\$ 522,243</u>

The District expended less than \$750,000 in Federal awards during the fiscal year ended June 30, 2020 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

NOTE L - COMPLIANCE OF SINKING FUNDS

The Capital Project Funds includes activities funded with sinking fund millage. For this fund, the District has complied with the applicable provisions of Michigan Compiled Law Section 380.1212(1) and the State of Michigan Department of Treasury Letter No. 2004-4.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2020

NOTE M - CONTINGENT LIABILITIES

Risk Pool - Hancock Public Schools is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Hancock Public Schools joined together with other school districts currently operating a common risk management and insurance program. Hancock Public Schools pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Hancock Public Schools continues to carry commercial insurance for all other risks of loss. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2020, which can be obtained through the District.

NOTE N - UPCOMING ACCOUNTING PRONOUNCEMENTS

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

NOTE O - SUBSEQUENT EVENTS

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

Michigan Finance Authority: - On August 20, 2020, the District entered into two one year operating loan notes with Michigan Finance Authority.

- Revenue Note Series 2020A-1 is for \$100,000. The interest rate on the note shall not exceed .7 % per annum. The note matures on August 20, 2021.
- Revenue Note Series 2020A is for \$969,000. The interest rate on the note shall not exceed .7% per annum. The note matures on August 20, 2021.

The District has three projects that consist of refinishing the gym floors in the elementary and high school for a total of \$46,730, update of elementary fire alarm system in the amount of \$68,976 and upgrades to LED lighting costing \$72,020.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2020

NOTE O - SUBSEQUENT EVENTS (Continued)

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 \$122,234 and was deducted from the August 20, 2020 state aid payment.

On September 1, 2020, the District was awarded a grant from Portage Health Foundation in the amount of \$41,900 to be used for the purchase of additional supplies, materials and other resources to assist with the District's COVID-19 response and reopening plans.

On September 22, 2020 the District was awarded elementary and secondary school relief funds from the Michigan Department of Education in the amount of \$103,838 to be used for the purchase of personal protective equipment and remote learning/technology.

On September 22, 2020 the District was approved for the extended summer food service program from the Michigan Department of Education. The program offers free meals to all students and will run through June 30, 2021.

As a result of the spread of the COVID-19 corona virus, numerous economic uncertainties have arisen. To combat the spread of the COVID-19, the governor of Michigan issued a "stay at home" order beginning on March 23, 2020, that lasted for over 70 days. This order required the closure of all non-essential businesses and required residents to shelter in place. The "stay at home" order, like many others across the country, has disrupted supply chains and affected production and sales across a range of industries. The extent of the impact of COVID-19 on operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the financial condition or results of operations is uncertain.

NOTE P - 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 Statement 84, *Fiduciary Activities*, was issued by GASB in January 2017 and is effective for the District's 2021 year end. The District early implemented this statement as it was originally effective with the 2020 year. The objective of this Statement is to improve guidance regarding 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,

As a result of implementing this accounting change, Michigan Department of Education established a Special Revenue Fund for Student Activity Fund. The beginning net position of the Student Activity Fund was determined to be \$74,788.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2020

NOTE P - CHANGE IN ACCOUNTING PRINCIPLE (Continued)

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

	<u>Fund Balances</u>	
	<u>Other Non-Major Funds</u>	<u>Total Governmental Funds</u>
Fund balances at beginning, as previously stated	\$ 53,296	\$ 907,659
Adoption of GASB Statement 84	74,788	74,788
Fund balances at beginning, as restated	<u>\$ 128,084</u>	<u>\$ 982,447</u>
		<u>Governmental Activities</u>
Net position at beginning of year, as previously stated		\$ (9,133,240)
Adoption of GASB Statement 84		74,788
Net position at beginning, as restated		<u>\$ (9,058,452)</u>

REQUIRED SUPPLEMENTARY INFORMATION

HANCOCK PUBLIC SCHOOLS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2020

	Budgeted Amounts		Actual	Variance Final to Actual
	Original	Final		
Revenues				
Local sources	\$ 1,288,493	\$ 1,378,824	\$ 1,383,620	\$ 4,796
Intermediate sources	10,000	10,000	-	(10,000)
State sources	4,761,414	5,353,297	5,230,342	(122,955)
Federal sources	170,000	165,448	165,448	-
Total revenues	<u>6,229,907</u>	<u>6,907,569</u>	<u>6,779,410</u>	<u>(128,159)</u>
Expenditures				
Instruction	4,072,617	4,313,252	4,394,067	(80,815)
Supporting services	2,154,129	2,820,962	2,705,674	115,288
Total expenditures	<u>6,226,746</u>	<u>7,134,214</u>	<u>7,099,741</u>	<u>34,473</u>
Excess (deficiency) of revenues over expenditures	3,161	(226,645)	(320,331)	(93,686)
Other financing sources (uses)				
Incoming transfers - other schools	32,500	46,006	46,006	-
Insurance proceeds	-	265,206	265,206	-
Total other financing sources (uses)	<u>32,500</u>	<u>311,212</u>	<u>311,212</u>	<u>-</u>
Net change in fund balances	<u>\$ 35,661</u>	<u>\$ 84,567</u>	(9,119)	<u>\$ (93,686)</u>
Fund balances - Beginning of year			<u>569,917</u>	
Fund balances - End of year			<u>\$ 560,798</u>	

**HANCOCK PUBLIC SCHOOLS
PENSION REQUIREMENTS
Year Ended June 30, 2020**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY**

Michigan Public School Employees Retirement Plan
Last Six Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	<u>9/30/2014</u>	<u>9/30/2015</u>	<u>9/30/2016</u>	<u>9/30/2017</u>	<u>9/30/2018</u>	<u>9/30/2019</u>
A. District's proportion of net pension liability	0.03584 %	0.03725 %	0.03749 %	0.03699 %	0.03678 %	0.03564 %
B. District's proportionate share of net pension liability	\$ 7,893,347	\$ 9,097,978	\$ 9,352,989	\$ 9,585,536	\$ 11,056,969	\$ 11,802,415
C. District's covered payroll	\$ 3,108,822	\$ 3,224,393	\$ 3,161,813	\$ 3,070,258	\$ 3,125,617	\$ 3,034,184
D. District's proportionate share of net pension liability as a percentage of its covered payroll	253.90 %	282.16 %	295.81 %	312.21 %	353.75 %	388.98 %
E. Plan fiduciary net position as a percentage of total pension liability	66.20 %	63.17 %	63.26 %	64.21 %	62.36 %	60.31 %

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS

Michigan Public School Employees Retirement Plan
Last Six Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>	<u>6/30/2018</u>	<u>6/30/2019</u>	<u>6/30/2020</u>
A. Statutorily required contributions	\$ 674,610	\$ 628,399	\$ 598,359	\$ 554,188	\$ 538,870	\$ 565,728
B. Contributions in relation to statutorily required contributions	674,610	628,399	598,722	554,188	538,870	565,728
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (363)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
D. District's covered payroll	\$ 3,173,132	\$ 3,179,093	\$ 3,174,711	\$ 3,109,281	\$ 3,024,629	\$ 3,064,566
E. Contributions as a percentage of covered payroll	21.00 %	20.00 %	18.86 %	17.82 %	17.82 %	18.46 %

**HANCOCK PUBLIC SCHOOLS
OPEB REQUIREMENTS
Year Ended June 30, 2020**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF NET OPEB LIABILITY**

Michigan Public School Employees Retirement Plan
(Amounts were determined as of 9/30 of each plan year)

	<u>9/30/2017</u>	<u>9/30/2018</u>	<u>9/30/2019</u>
A. District's proportion of net OPEB liability	0.03698 %	0.03680 %	0.03485 %
B. District's proportionate share of net OPEB liability	\$ 3,275,038	\$ 2,925,097	\$ 2,501,773
C. District's covered payroll	\$ 3,070,258	\$ 3,125,617	\$ 3,034,184
D. District's proportionate share of net OPEB liability as a percentage of its covered payroll	106.67 %	93.58 %	82.45 %
E. Plan fiduciary net position as a percentage of total OPEB liability	36.39 %	42.95 %	48.46 %

SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS

Michigan Public School Employees Retirement Plan
(Amounts were determined as of 6/30 of each fiscal year)

	<u>6/30/2018</u>	<u>6/30/2019</u>	<u>6/30/2020</u>
A. Statutorily required contributions	\$ 226,683	\$ 236,201	\$ 244,036
B. Contributions in relation to statutorily required contributions	226,683	236,201	244,036
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
D. District's covered payroll	\$ 3,109,281	\$ 3,024,629	\$ 3,064,566
E. Contributions as a percentage of covered payroll	7.29 %	7.81 %	7.96 %

HANCOCK PUBLIC SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - June 30, 2020

Pension Information

Ten years of data are required in the pension related schedules. The number of years presented as of June 30, 2020 represent the number of years since the accounting standard requiring these schedules came into effect.

NOTE A - CHANGE OF BENEFIT TERMS

There were no changes of benefit terms in 2019.

NOTE B - CHANGE OF ASSUMPTIONS

During the year, MPSERS approved a decrease in the discount rate for the September 30, 2019 annual actuarial valuation of 0.25 percent from 7.05% to 6.8% for the non-hybrid plan.

OPEB Information

Ten years of data are required in the OPEB related schedules. The number of years presented as of June 30, 2020 represent the number of years since the accounting standard requiring these schedules came into effect.

NOTE A - CHANGE OF BENEFIT TERMS

There were no changes of benefit terms in 2019.

NOTE B - CHANGE OF ASSUMPTIONS

During the year, MPSERS approved a decrease in the discount rate for the September 30, 2019 annual actuarial valuation of 0.20 percent from 7.15% to 6.95% for the OPEB plan.

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

HANCOCK PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Local sources			
Taxes	\$ 1,247,474	\$ 1,242,620	\$ (4,854)
Penalties and interest	5,000	4,929	(71)
Earnings on investments	1,750	2,888	1,138
Rentals	22,500	22,986	486
Athletics	-	31,413	31,413
Contributions	29,100	29,100	-
Miscellaneous	73,000	49,684	(23,316)
Total local sources	<u>1,378,824</u>	<u>1,383,620</u>	<u>4,796</u>
Intermediate sources	10,000	-	(10,000)
State sources			
Unrestricted state aid	4,454,500	4,332,333	(122,167)
Restricted grants			
MPSERS cost offset	494,891	498,104	3,213
Special education	116,099	116,099	-
Early Literacy Target Insurance	10,242	10,242	-
At-risk	248,250	246,600	(1,650)
CTE Pupil Incentive	2,899	2,899	-
Other grants	26,416	24,065	(2,351)
Total restricted grants	<u>898,797</u>	<u>898,009</u>	<u>(788)</u>
Total state sources	<u>5,353,297</u>	<u>5,230,342</u>	<u>(122,955)</u>
Federal sources			
Title I	126,879	126,879	-
Title II	28,569	28,569	-
Title IV	10,000	10,000	-
Total federal sources	<u>165,448</u>	<u>165,448</u>	<u>-</u>
Total revenues	<u>6,907,569</u>	<u>6,779,410</u>	<u>(128,159)</u>
Expenditures			
Instruction			
Basic program			
Elementary school	1,808,428	1,748,984	59,444
Middle school	907,941	882,912	25,029
High school	1,044,707	979,924	64,783
Total basic program	<u>3,761,076</u>	<u>3,611,820</u>	<u>149,256</u>
Added needs			
Special education	375,923	385,408	(9,485)
Compensatory education	167,443	159,646	7,797
At-risk	8,810	237,193	(228,383)
Total added needs	<u>552,176</u>	<u>782,247</u>	<u>(230,071)</u>
Total instruction	<u>4,313,252</u>	<u>4,394,067</u>	<u>(80,815)</u>

HANCOCK PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES (Continued)
Year Ended June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Supporting services			
Pupil			
Guidance	\$ 81,124	\$ 19,247	\$ 61,877
Instructional staff			
Library	71,908	75,192	(3,284)
General administration			
Board of education	58,400	57,934	466
Executive administration	262,917	259,545	3,372
Total general administration	<u>321,317</u>	<u>317,479</u>	<u>3,838</u>
School administration			
Office of principal - Elementary school	176,510	167,188	9,322
Office of principal - Middle school	227,550	267,062	(39,512)
Office of principal - High school	242,208	144,659	97,549
Total school administration	<u>646,268</u>	<u>578,909</u>	<u>67,359</u>
Business-fiscal services	138,168	142,350	(4,182)
Operations & maintenance	1,025,177	1,061,499	(36,322)
Pupil transportation	201,000	181,108	19,892
Athletics	169,000	162,719	6,281
Technical support	167,000	167,171	(171)
Total supporting services	<u>2,820,962</u>	<u>2,705,674</u>	<u>115,288</u>
 Total expenditures	 <u>7,134,214</u>	 <u>7,099,741</u>	 <u>34,473</u>
 Excess (deficiency) of revenues over expenditures	 (226,645)	 (320,331)	 (93,686)
 Other financing sources (uses)			
Incoming transfers - other schools	46,006	46,006	-
Insurance proceeds	265,206	265,206	-
Total other financing sources (uses)	<u>311,212</u>	<u>311,212</u>	<u>-</u>
 Net change in fund balances	 <u>\$ 84,567</u>	 (9,119)	 <u>\$ (93,686)</u>
 Fund balances - Beginning of year		 <u>569,917</u>	
 Fund balances - End of year		 <u>\$ 560,798</u>	

HANCOCK PUBLIC SCHOOLS
NON-MAJOR FUNDS
COMBINING BALANCE SHEET
June 30, 2020

	<u>Capital Project Fund</u>	<u>Food Service</u>	<u>Student Activities</u>	<u>Total</u>
Assets				
Cash and investments	\$ 229,760	\$ 86,863	\$ 87,053	\$ 403,676
Receivables	-	52,260	-	52,260
Due from governmental units	-	62,031	-	62,031
Total assets	<u>\$ 229,760</u>	<u>\$ 201,154</u>	<u>\$ 87,053</u>	<u>\$ 517,967</u>
Liabilities				
Accounts payable	\$ -	\$ 8,199	\$ -	\$ 8,199
Due to other funds	-	155,232	-	155,232
Total liabilities	<u>-</u>	<u>163,431</u>	<u>-</u>	<u>163,431</u>
Fund balances				
Assigned	229,760	-	-	229,760
Committed for student school activities	-	-	87,053	87,053
Restricted	-	37,723	-	37,723
Total fund balances	<u>229,760</u>	<u>37,723</u>	<u>87,053</u>	<u>354,536</u>
Total liabilities and fund balances	<u>\$ 229,760</u>	<u>\$ 201,154</u>	<u>\$ 87,053</u>	<u>\$ 517,967</u>

HANCOCK PUBLIC SCHOOLS
NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2020

	<u>Capital Project Fund</u>	<u>Food Service</u>	<u>Student Activities</u>	<u>Total</u>
Revenues				
Local sources	\$ 275,484	\$ 94,142	\$ 83,528	\$ 453,154
State sources	-	11,528	-	11,528
Federal sources	-	356,795	-	356,795
Total revenues	<u>275,484</u>	<u>462,465</u>	<u>83,528</u>	<u>821,477</u>
Expenditures				
School food service	-	391,119	-	391,119
Student activities	-	-	71,263	71,263
Capital projects	132,643	-	-	132,643
Total expenditures	<u>132,643</u>	<u>391,119</u>	<u>71,263</u>	<u>595,025</u>
Excess (deficiency) of revenues over expenditures	<u>142,841</u>	<u>71,346</u>	<u>12,265</u>	<u>226,452</u>
Other financing sources (uses)				
Fund balances - Beginning of year	<u>86,919</u>	<u>(33,623)</u>	<u>74,788</u>	<u>128,084</u>
Fund balances - End of year	<u>\$ 229,760</u>	<u>\$ 37,723</u>	<u>\$ 87,053</u>	<u>\$ 354,536</u>

COMMUNICATIONS SECTION

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, PC

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

To the Board of Education
Hancock Public Schools
Hancock, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock Public Schools as of and for the year then ended June 30, 2020, which collectively comprise Hancock Public Schools's basic financial statements and have issued our report thereon dated November 20, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

*Rukkila, Negro & Associates,
Certified Public Accountants, PC*

November 20, 2020

RUKKILA | NEGRO AND ASSOCIATES

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Board of Education
Hancock Public Schools
Hancock, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock Public Schools for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 4, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hancock Public Schools are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2020. We noted no transactions entered into by Hancock Public Schools during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the liability of the payout for the employee compensated absences upon their retirement is based on expected payout:

- We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the lives of capital assets:

- We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension and net OPEB liability:

- We evaluated the key factors and assumptions used to develop the liabilities related to the Municipal Employees' Retirement System of Michigan, which are based on actuarial valuations.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 20, 2020.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

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

Restriction on Use

This information is intended solely for the use of the Hancock Public Schools board and management and is not intended to be and should not be used for anyone other than these specified parties.

*Rukkila, Negro & Associates,
Certified Public Accountants, PC*

November 20, 2020

**HANCOCK PUBLIC SCHOOLS
COMMENTS AND RECOMMENDATIONS
JUNE 30, 2020**

During our audit we became aware of opportunities for strengthening internal controls and operating efficiencies. The following items summarize our comments and suggestions regarding those matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Budget

The Uniform Budgeting Act requires entities to approve an operating budget prior to the beginning of the year and that all amendments to budget made throughout the year are approved. Districts shall not incur expenditures in excess of the amount appropriated. The approved budgets of these funds were adopted on an activity and/or program level. During the year ended June 30, 2020, the District incurred expenditures which were in excess of the amounts appropriated as shown within the required supplemental financial information.

The District should control expenditures in each governmental fund so as not to exceed the amounts appropriated. When this is not possible, the budget should be amended accordingly. We recommend that the District review the provisions of Public Act 2 of 1968, as amended, to determine proper compliance procedures.