
Covert Public Schools

**Financial Report
with Supplemental Information
June 30, 2019**

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Independent Auditor's Report

To the Board of Directors
Covert Public Schools

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and aggregate remaining fund information of Covert Public Schools (the "School District") as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise Covert Public Schools' 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, the major fund, and aggregate remaining fund information of Covert Public Schools as of June 30, 2019 and the respective changes in its financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Covert Public Schools

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplemental information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental 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 Covert Public Schools' basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates 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 other supplemental 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 our report dated October 24, 2019 on our consideration of Covert 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Covert Public Schools' internal control over financial reporting and compliance.



October 24, 2019

This section of Covert Public Schools' (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2019. 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 those financial statements. These statements are organized so the reader can understand Covert 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 longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term, as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund, the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. This report is composed of the following elements:

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

Required Supplemental Information

Budgetary Information for Major Fund

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

Schedule of Pension Contributions

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

Schedule of OPEB Contributions

Other Supplemental Information

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 on 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, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the School District's net position - the difference between assets plus deferred outflows of resources less liabilities and deferred inflows of resources, as reported in the statement of net position - as one way to measure the School District's financial health or financial position. Over time, increases 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 revenue and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial 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 the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's 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 many other funds to help it control and manage money for particular purposes (the Food Service Fund is an example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

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 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.

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Covert Public Schools

Management's Discussion and Analysis (Continued)

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. The following table provides a summary of the School District's net position as of June 30, 2019 and 2018:

| | Governmental Activities | |
|---------------------------------------|-------------------------|-----------------|
| | 2019 | 2018 |
| | (in millions) | |
| Assets | | |
| Current and other assets | \$ 8.7 | \$ 8.4 |
| Capital assets | 12.6 | 12.6 |
| Total assets | 21.3 | 21.0 |
| Deferred Outflows of Resources | 4.5 | 2.3 |
| Liabilities | | |
| Current liabilities | 1.2 | 2.4 |
| Noncurrent liabilities | 10.0 | 11.0 |
| Net pension liability | 10.1 | 8.3 |
| Net OPEB liability | 2.7 | 2.8 |
| Total liabilities | 24.0 | 24.5 |
| Deferred Inflows of Resources | 1.8 | 0.9 |
| Net Position | | |
| Net investment in capital assets | 5.5 | 5.0 |
| Unrestricted | (5.5) | (7.1) |
| Total net position | <u>\$ -</u> | <u>\$ (2.1)</u> |

The above analysis focuses on net position. The change in net position of the School District's governmental activities is discussed below. The School District's net position was \$0.0 million at June 30, 2019. Net investment in capital assets totaling \$5.5 million compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from general operating tax collections. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations. The remaining amount of net position (\$(5.5) million) was unrestricted.

The \$(5.5) million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance enables the School District to meet working capital and cash flow requirements, as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

Covert Public Schools

Management's Discussion and Analysis (Continued)

The results of this year's operations for the School District as a whole are reported in the condensed statement of activities below, which shows the changes in net position for the years ended June 30, 2019 and 2018:

| | Governmental Activities | |
|--------------------------------------------------|-------------------------|-----------------|
| | 2019 | 2018 |
| | (in millions) | |
| Revenue | | |
| Program revenue - Operating grants | \$ 1.6 | \$ 1.5 |
| General revenue - Property taxes | 8.4 | 8.0 |
| Total revenue | 10.0 | 9.5 |
| Expenses | | |
| Instruction | 3.3 | 2.9 |
| Support services | 3.3 | 8.2 |
| Athletics | 0.1 | 0.1 |
| Food services | 0.4 | 0.4 |
| Community services | - | 0.1 |
| Debt service | 0.3 | 0.3 |
| Depreciation expense (unallocated) | 0.5 | 0.5 |
| Total expenses | 7.9 | 12.5 |
| Change in Net Position | 2.1 | (3.0) |
| Net Position - Beginning of year | (2.1) | 3.7 |
| Cumulative Effect of Change in Accounting | - | (2.8) |
| Net Position - Beginning of year | (2.1) | 0.9 |
| Net Position - End of year | <u>\$ -</u> | <u>\$ (2.1)</u> |

As reported in the statement of activities, the cost of all of our governmental activities this year was \$7.9 million. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions (\$1.6 million). We paid for the remaining "public benefit" portion of our governmental activities with \$8.2 million in taxes and our other revenue (i.e., interest and general entitlements).

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations constitute the vast majority of the School District's operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$4.8 million, which is an increase of \$2.0 million from last year.

In the General Fund, our principal operating fund, the fund balance increased by \$2.0 million to \$4.8 million. The change is mainly due to streamlining expenditures to be in line with future expected decreased revenue streams.

Covert Public Schools

Management's Discussion and Analysis (Continued)

Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenue 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 in June 2019. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

There were revisions made to the 2018-2019 original budget. Budgeted revenue was increased \$0.1 million due to an unexpected change in certain categorical revenue from the State and an unanticipated increase receipt of property tax revenue, as well as increased revenue from state and federal sources.

Budgeted expenditures were also decreased by \$0.3 million to closer align expenditures with expected amounts and to account for the decrease in anticipated debt costs.

There were no significant variances between the final budget and actual amounts.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2019, the School District had \$12.6 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment, net of depreciation. This represents a net decrease (including additions, disposals, and depreciation) of approximately \$59,000 from 2018 to 2019.

| | <u>2019</u> | <u>2018</u> |
|--------------------------------------------------------|-----------------------------|-----------------------------|
| Land | \$ 40,000 | \$ 40,000 |
| Construction in progress | - | 127,548 |
| Buildings and improvements | 23,328,299 | 22,787,223 |
| Furniture and equipment | 829,058 | 851,676 |
| Buses and other vehicles | 622,129 | 688,167 |
| | <u>24,819,486</u> | <u>24,494,614</u> |
| Total capital assets | | |
| Less accumulated depreciation | <u>12,262,586</u> | <u>11,879,073</u> |
| Total capital assets - Net of accumulated depreciation | <u>\$ 12,556,900</u> | <u>\$ 12,615,541</u> |

We anticipate some additional capital additions as we prepare to replace the high school gym's roof during the 2019-2020 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$7.2 million in bonds outstanding versus \$7.7 million in the previous year.

Those bonds consisted of the following:

| | <u>2019</u> | <u>2018</u> |
|---------------------------------------------------------|----------------------------|----------------------------|
| General obligation bonds - Net of unamortized discounts | \$ 7,103,447 | \$ 7,613,993 |
| Other obligations | 72,414 | 80,227 |
| Total | <u>\$ 7,175,861</u> | <u>\$ 7,694,220</u> |

The School District's general obligation bond rating increased from BBB to BBB+. The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt" (i.e., debt backed by the State of Michigan), such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$7.2 million is significantly below the statutorily imposed limit.

Other obligations include accrued vacation pay, sick leave, and capital leases. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2019-2020 fiscal year budget. One of the most important factors affecting the budget is property tax revenue, as the School District is considered out of formula and, therefore, does not receive the per pupil foundation allowance from the State that most schools receive. Due to ongoing disputes with one major taxpayer, our tax revenue has seen large variances over the past few years. Because of the uncertainty regarding what the entity's tax liability will be for the 2019 levy, as well as the uncertainty of receiving a full payment from that entity, we continue to budget our revenue on the low end of estimates. With this lower expected revenue, we continue to make every effort to reduce expenditures throughout the School District.

In June 2018, the School District settled a labor contract with the CEA teacher union. CEA members' salaries increased 2 percent in 2018-2019, will increase 2 percent in 2019-2020, and will increase 1 percent in 2020-2021. In June 2018, the School District also settled a labor contract with the SEIU union. SEIU members' hourly rates increased 2 percent in 2018-2019, will increase 2 percent in 2019-2020, and will increase 1 percent in 2020-2021. Both of these union pay increases were built into the 2019-2020 budget that was adopted in June 2019.

On August 28, 2019, the School District issued the sale of our 2019 Refunding Bonds in the amount of \$5,685,000. This is to refund our 2008 Building & Site Bonds and is expected to save the School District approximately \$1,000,695 in interest over the next 14 years. As we do not have a debt levy and pay our debt payments from our General Fund, this will help keep more of our operating funds focused on the education of our students.

Contacting the School District's Management

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the business office.

Covert Public Schools

Statement of Net Position

June 30, 2019

| | <u>Governmental Activities</u> |
|-------------------------------------------------------------------------------------|------------------------------------|
| Assets | |
| Cash and investments (Note 4) | \$ 8,424,765 |
| Receivables (Note 5) | 203,212 |
| Inventory | 7,628 |
| Prepaid expenses and other assets | 20,900 |
| Capital assets - Net (Note 8) | <u>12,556,900</u> |
| Total assets | 21,213,405 |
| Deferred Outflows of Resources (Note 12) | |
| Deferred pension costs | 3,800,655 |
| Deferred OPEB costs | <u>674,733</u> |
| Total deferred outflows of resources | 4,475,388 |
| Liabilities | |
| Accounts payable | 57,688 |
| Due to other governmental units | 78,489 |
| Due to agency fund | 512 |
| Accrued liabilities and other | 441,229 |
| Property tax payable (Note 6) | 579,249 |
| Noncurrent liabilities: | |
| Due within one year: | |
| Compensated absences (Note 10) | 14,483 |
| Current portion of bonds payable (Note 10) | 525,212 |
| Due in more than one year: | |
| Compensated absences (Note 10) | 57,931 |
| Property tax payable (Note 6) | 2,753,410 |
| Bonds payable - Net of current portion (Note 10) | 6,578,235 |
| Net pension liability (Note 12) | 10,093,062 |
| Net OPEB liability (Note 12) | <u>2,747,901</u> |
| Total liabilities | 23,927,401 |
| Deferred Inflows of Resources (Note 12) | |
| Revenue in support of pension contributions made subsequent to the measurement date | 382,368 |
| Deferred pension cost reductions | 790,915 |
| Deferred OPEB cost reductions | <u>619,545</u> |
| Total deferred inflows of resources | <u>1,792,828</u> |
| Net Position | |
| Net investment in capital assets | 5,453,453 |
| Unrestricted | <u>(5,484,889)</u> |
| Total net position | <u><u>\$ (31,436)</u></u> |

Covert Public Schools

Statement of Activities

Year Ended June 30, 2019

| Functions/Programs | Program Revenue | | | Governmental |
|-----------------------------------------------|---------------------|----------------------|------------------------------------|---------------------------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Activities |
| | | | | Net (Expense) Revenue and Changes in Net Position |
| Primary government - Governmental activities: | | | | |
| Instruction | \$ 3,334,155 | \$ - | \$ 905,773 | \$ (2,428,382) |
| Support services | 3,284,945 | 28,412 | 344,210 | (2,912,323) |
| Athletics | 108,413 | 3,496 | - | (104,917) |
| Food services | 403,414 | 5,357 | 380,062 | (17,995) |
| Community services | 39,352 | - | - | (39,352) |
| Interest | 331,101 | - | - | (331,101) |
| Depreciation expense (unallocated) | 472,169 | - | - | (472,169) |
| Total primary government | \$ 7,973,549 | \$ 37,265 | \$ 1,630,045 | (6,306,239) |
| General revenue: | | | | |
| Property taxes levied for general purposes | | | | 8,243,585 |
| Interest and investment earnings | | | | 79,373 |
| Other | | | | 36,264 |
| Total general revenue | | | | <u>8,359,222</u> |
| Change in Net Position | | | | 2,052,983 |
| Net Position - Beginning of year | | | | <u>(2,084,419)</u> |
| Net Position - End of year | | | | <u>\$ (31,436)</u> |

Covert Public Schools

Governmental Funds Balance Sheet

June 30, 2019

| | General Fund | Nonmajor Funds | Total Governmental Funds |
|-------------------------------------|---------------------|------------------|--------------------------------|
| Assets | | | |
| Cash and investments (Note 4) | \$ 8,409,353 | \$ 15,412 | \$ 8,424,765 |
| Receivables (Note 5) | 198,917 | 4,295 | 203,212 |
| Due from other funds (Note 9) | - | 2,500 | 2,500 |
| Inventory | 902 | 6,726 | 7,628 |
| Prepaid expenses and other assets | 20,900 | - | 20,900 |
| Total assets | <u>\$ 8,630,072</u> | <u>\$ 28,933</u> | <u>\$ 8,659,005</u> |
| Liabilities | | | |
| Accounts payable | \$ 56,534 | \$ 1,154 | \$ 57,688 |
| Due to other governmental units | 77,342 | 1,147 | 78,489 |
| Due to other funds (Note 9) | 3,012 | - | 3,012 |
| Accrued liabilities and other | 384,169 | 3,770 | 387,939 |
| Property tax payable (Note 6) | 3,332,659 | - | 3,332,659 |
| Total liabilities | 3,853,716 | 6,071 | 3,859,787 |
| Fund Balances | | | |
| Nonspendable: | | | |
| Inventory | 902 | 6,726 | 7,628 |
| Prepays | 20,900 | - | 20,900 |
| Restricted - Food service | - | 3,903 | 3,903 |
| Committed - Bookstore | - | 12,233 | 12,233 |
| Unassigned | 4,754,554 | - | 4,754,554 |
| Total fund balances | <u>4,776,356</u> | <u>22,862</u> | <u>4,799,218</u> |
| Total liabilities and fund balances | <u>\$ 8,630,072</u> | <u>\$ 28,933</u> | <u>\$ 8,659,005</u> |

Covert Public Schools

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

June 30, 2019

| | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|
| Fund Balances Reported in Governmental Funds | \$ 4,799,218 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds: | |
| Cost of capital assets | 24,819,486 |
| Accumulated depreciation | <u>(12,262,586)</u> |
| Net capital assets used in governmental activities | 12,556,900 |
| Bonds payable, including unamortized bond premiums, are not due and payable in the current period and are not reported in the funds | (7,103,447) |
| Accrued interest is not due and payable in the current period and is not reported in the funds | (53,290) |
| Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities: | |
| Employee compensated absences | (72,414) |
| Net pension liability and related deferred inflows and outflows | (7,083,322) |
| Net OPEB liability and related deferred inflows and outflows | (2,692,713) |
| Revenue in support of pension contributions made subsequent to the measurement date is reported as a deferred inflow of resources in the statement of net position and is not reported in the funds | <u>(382,368)</u> |
| Net Position of Governmental Activities | <u><u>\$ (31,436)</u></u> |

Covert Public Schools

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2019

| | General Fund | Nonmajor Funds | Total Governmental Funds |
|----------------------------------------------------|---------------------|------------------|--------------------------------|
| Revenue | | | |
| Local sources | \$ 8,390,878 | \$ 5,609 | \$ 8,396,487 |
| State sources | 866,845 | 15,835 | 882,680 |
| Federal sources | 424,242 | 364,227 | 788,469 |
| Total revenue | 9,681,965 | 385,671 | 10,067,636 |
| Expenditures | | | |
| Current: | | | |
| Instruction | 3,114,035 | - | 3,114,035 |
| Support services | 3,097,176 | - | 3,097,176 |
| Athletics | 101,447 | - | 101,447 |
| Food services | - | 389,037 | 389,037 |
| Community services | 38,420 | - | 38,420 |
| Debt service: | | | |
| Principal | 517,271 | - | 517,271 |
| Interest | 328,994 | - | 328,994 |
| Capital outlay | 435,581 | - | 435,581 |
| Total expenditures | 7,632,924 | 389,037 | 8,021,961 |
| Excess of Revenue Over (Under) Expenditures | 2,049,041 | (3,366) | 2,045,675 |
| Other Financing Sources (Uses) | | | |
| Transfers in (Note 9) | - | 5,000 | 5,000 |
| Transfers out (Note 9) | (5,000) | - | (5,000) |
| Total other financing (uses) sources | (5,000) | 5,000 | - |
| Net Change in Fund Balances | 2,044,041 | 1,634 | 2,045,675 |
| Fund Balances - Beginning of year | 2,732,315 | 21,228 | 2,753,543 |
| Fund Balances - End of year | \$ 4,776,356 | \$ 22,862 | \$ 4,799,218 |

Covert Public Schools

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

Year Ended June 30, 2019

| | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| Net Change in Fund Balances Reported in Governmental Funds | \$ 2,045,675 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation: | |
| Capitalized capital outlay | 413,528 |
| Depreciation expense | (472,169) |
| Revenue in support of pension contributions made subsequent to the measurement date | (41,104) |
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt); amortization of premium/discounts and inflows/outflows related to bond refundings are not expenses in the governmental funds | 510,546 |
| Interest expense is recognized in the government-wide statements as it accrues | 4,618 |
| Some employee costs (pension, OPEB, and compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds | (408,111) |
| Change in Net Position of Governmental Activities | <u>\$ 2,052,983</u> |

Covert Public Schools

Fiduciary Fund Statement of Fiduciary Assets and Liabilities

June 30, 2019

Student Activity
Fund

Assets

Cash and investments (Note 4)
Due from other funds (Note 9)

\$ 132,539
557

Total assets

\$ 133,096

Liabilities

Due to student activities
Due to other funds (Note 9)

\$ 133,051
45

Total liabilities

\$ 133,096

June 30, 2019

Note 1 - Nature of Business

Covert Public Schools (the "School District") is a school district in the state of Michigan that provides educational services to students.

Note 2 - Significant Accounting Policies

Accounting and Reporting Principles

The School District follows accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. In accordance with government accounting principles, there are no separate legal entities appropriate to be reported within these financial statements.

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the district-wide perspective and the fund-based perspective. The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the School District. The district-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue 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 statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Taxes and other items not properly included among program revenue are reported instead as general revenue.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund Accounting

The School District accounts for its various activities in several different funds in order to demonstrate accountability for how it spends certain resources; separate funds allow the School District to show the particular expenditures for which specific revenue is used. The various funds are aggregated into three broad fund types:

Governmental Funds

Governmental funds include all activities that provide general governmental services that are not business-type activities. Governmental funds can include the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds. The School District's only major fund is the General Fund, which is the primary operating fund because it accounts for all financial resources used to provide government services other than those specifically assigned to another fund.

Note 2 - Significant Accounting Policies (Continued)

Additionally, the School District reports the following nonmajor governmental fund type:

- Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes.

Fiduciary Funds

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts are not used to operate the School District's programs. The School District maintains a student activity agency fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and are held for the students.

Interfund Activity

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, certain eliminations are made in the preparation of the district-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Furthermore, 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, certain eliminations are made in the preparation of the district-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenue is not recognized until it is collected or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the School District considers amounts collected within 60 days of year end to be available for recognition. Revenue not meeting this definition is classified as a deferred inflow of resources.

Fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Specific Balances and Transactions**Cash and Investments**

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Note 2 - Significant Accounting Policies (Continued)

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Inventories and Prepaid Items

Inventories are valued at cost on a first-in, first-out basis. Inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements, when applicable.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column 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 two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

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

| | Depreciable Life - Years |
|----------------------------|-----------------------------|
| Buildings and improvements | 15-20 |
| Furniture and equipment | 5-20 |
| Vehicles | 8 |

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are 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 expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances and premiums as "other financing sources" and bond discounts as "other financing uses." The General Fund is generally used to liquidate governmental long-term debt.

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 represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until then.

The School District reports deferred outflows related to deferred pension and OPEB costs.

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 represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

June 30, 2019**Note 2 - Significant Accounting Policies (Continued)**

The School District reports deferred inflows related to revenue in support of pension contributions made subsequent to the measurement date and deferred pension and OPEB plan cost reductions.

Net Position

Net position of the School District is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Net Position Flow Assumption

The School District will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide 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.

Fund Balance Flow Assumptions

The School District will sometimes 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. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The nonspendable fund balance component represents amounts that are not in spendable form or are legally or contractually required to be maintained intact. Restricted fund balance represents amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose. The School District 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 passing a resolution prior to the end of the fiscal year, commit fund balance. Once passed, the limitation imposed by the resolution remains in place until a similar action is taken (the passing of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government 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 exist only 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.

June 30, 2019**Note 2 - Significant Accounting Policies (Continued)****Property Tax Revenue**

Properties are assessed as of December 31, and the related property taxes become a lien on July 1 of the following year. Tax collections are forwarded to the School District as collected by the assessing municipalities through March 1, at which time they are considered delinquent and added to county tax rolls. Any delinquent taxes collected by the county are remitted to the School District by June 30. All property tax receivables are shown net of an allowance for uncollectible amounts.

Grants and Contributions

The School District receives federal, state, and local grants, as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

Pension and Other Postemployment Benefit (OPEB) Plans

For the purpose of measuring the net pension and net OPEB liabilities, deferred outflows of resources and deferred inflows of resources related each plan, 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 the MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expenses when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value.

Compensated Absences (Vacation and Sick Leave)

It is the School District's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Sick pay is accrued for the estimated amount that the School District will pay upon employment termination; vacation pay is accrued when incurred. Both of these are reported in the district-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. Generally, the funds that report each employee's compensation are used to liquidate the obligations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Upcoming Accounting Pronouncement

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The School District has evaluated the impact this standard will have on the financial statements. As of July 1, 2019, the School District will report the activities and related balances currently reported as fiduciary in a newly created special revenue fund. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2020.

June 30, 2019

Note 3 - Stewardship, Compliance, and Accountability***Budgetary Information***

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and all special revenue funds. All annual appropriations lapse at fiscal year end. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders or contracts) are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds

The School District did not have significant expenditure budget variances.

Note 4 - Deposits and Investments

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

The School District has designated two banks and one credit union for the deposit of its funds.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At year end, the School District had \$8,126,814 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The School District believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk 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 does not have a policy for custodial credit risk. At June 30, 2019, the School District does not have investments with custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity.

June 30, 2019

Note 4 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices. As of June 30, 2019, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

| Investment | Carrying Value | Rating | Rating Organization |
|----------------------------------------------|-----------------|--------|---------------------|
| Michigan Liquid Asset Fund - MAX Class | \$ 5,426 | AAAm | S&P |
| Michigan Liquid Asset Fund - Cash management | 879 | AAAm | S&P |
| Total | <u>\$ 6,305</u> | | |

Investment Restrictions

The Michigan Liquid Asset Fund - MAX Class 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. In addition, redemptions made prior to the 14-day period are subject to a penalty equal to 15 days' interest on the amount so redeemed. The Michigan Liquid Asset Fund - cash management investment has no limitations or restrictions on participant withdrawals except for a one-day minimum investment period.

Concentration of Credit Risk

The School District's investment policy minimizes concentration of credit risk by placing a \$300,000 limit on the amount the School District may invest in any one issuer, with the exception of United States obligations, money market funds, or authorized investment pools. At June 30, 2019, the School District's funds are in accordance with statutory authority.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the School District's investment policy prohibit investments in foreign currency.

Note 5 - Receivables

Receivables as of June 30, 2019 for the School District's individual major fund and the nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | General Fund | Nonmajor Funds | Total |
|----------------------------|-------------------|-----------------|-------------------|
| Receivables: | | | |
| Other receivables | \$ 6,288 | \$ 103 | \$ 6,391 |
| Due from other governments | 192,629 | 4,192 | 196,821 |
| Net receivables | <u>\$ 198,917</u> | <u>\$ 4,295</u> | <u>\$ 203,212</u> |

Note 6 - Property Tax Receivable and Payable

In April 2018, the largest taxpayer in the School District settled an outstanding property tax tribunal claim for the 2010 and 2011 tax years. As a result, the School District is required to pay back taxes previously collected and interest totaling \$1,123,161 directly to the taxpayer and \$2,211,206 to Van Buren County, Michigan related to the 2010 and 2011 property tax years. As of June 30, 2018, the School District entered into a repayment plan, where the School District paid back \$1,823,161 during the 2018-2019 school year and will pay back the remaining \$1,511,206 in future years. As of June 30, 2019, \$1,511,206 is outstanding and \$579,249 is due in 2019-2020.

In July 2018, the largest taxpayer in the School District also settled an outstanding property tax tribunal claim for the 2012, 2013, 2014, and 2015 tax years. As a result, the School District is required to pay back taxes previously collected and interest totaling \$1,821,453 to Van Buren County, Michigan related to these years. The School District is working on a repayment plan with the county. These amounts will not be required to be repaid during the 2019-2020 school year and are recorded as a long-term liability at June 30, 2019.

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. As of June 30, 2019, the School District has \$9,638,801 in property tax receivables from the largest taxpayer in the School District. The total receivable is the difference between the total property taxes levied and the amount received from the taxpayer from 2016 through 2019. The School District has recorded an allowance for uncollectible amounts on the entire uncollected balance, as the collectibility of the outstanding receivable is unknown. The School District considers all other receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded on the remaining other receivables.

At year end, the total uncollected property taxes from the largest taxpayer are as follows:

| | Year Ended | | | Total at June 30, 2019 |
|--------------------------------------------|--------------|--------------|--------------|---------------------------|
| | 2018 | 2017 | 2016 | |
| Property tax levy | \$ 5,621,873 | \$ 5,621,873 | \$ 5,621,873 | \$ 16,865,619 |
| Amount collected | (2,499,249) | (2,384,031) | (2,343,538) | (7,226,818) |
| Total receivable | 3,122,624 | 3,237,842 | 3,278,335 | 9,638,801 |
| Allowance for uncollectible receivables | (3,122,624) | (3,237,842) | (3,278,335) | (9,638,801) |
| Net receivable | \$ - | \$ - | \$ - | \$ - |

Note 7 - Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned.

At June 30, 2019, the School District had no unavailable revenue and \$52,640 of unearned revenue. Funds received from an insurance company related to the upcoming gymnasium floor replacement accounts for substantially all of the unearned revenue.

Note 8 - Capital Assets

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

Governmental Activities

| | Balance July 1, 2018 | Reclassifications | Additions | Disposals and Adjustments | Balance June 30, 2019 |
|--------------------------------------------|-------------------------|-------------------|--------------------|------------------------------|--------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 40,000 | \$ - | \$ - | \$ - | \$ 40,000 |
| Construction in progress | 127,548 | (127,548) | - | - | - |
| Subtotal | 167,548 | (127,548) | - | - | 40,000 |
| Capital assets being depreciated: | | | | | |
| Buildings and improvements | 22,787,223 | 127,548 | 413,528 | - | 23,328,299 |
| Furniture and equipment | 851,676 | - | - | (22,618) | 829,058 |
| Buses and other vehicles | 688,167 | - | - | (66,038) | 622,129 |
| Subtotal | 24,327,066 | 127,548 | 413,528 | (88,656) | 24,779,486 |
| Accumulated depreciation: | | | | | |
| Buildings and improvements | 10,564,996 | - | 433,746 | - | 10,998,742 |
| Furniture and equipment | 738,423 | - | 22,692 | (22,618) | 738,497 |
| Buses and other vehicles | 575,654 | - | 15,731 | (66,038) | 525,347 |
| Subtotal | 11,879,073 | - | 472,169 | (88,656) | 12,262,586 |
| Net capital assets being depreciated | 12,447,993 | 127,548 | (58,641) | - | 12,516,900 |
| Net governmental activities capital assets | <u>\$ 12,615,541</u> | <u>\$ -</u> | <u>\$ (58,641)</u> | <u>\$ -</u> | <u>\$ 12,556,900</u> |

Depreciation expense was not charged to activities, as the School District considers its assets to benefit multiple activities, and allocation is not practical.

Note 9 - Interfund Receivables, Payables, and Transfers

| Receivable Fund | Payable Fund | Amount |
|-----------------------|-----------------------|----------|
| Food Service Fund | General Fund | \$ 2,455 |
| Food Service Fund | Student Activity Fund | 45 |
| Student Activity Fund | General Fund | 557 |

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are composed of the following:

| Paying Fund (Transfer Out) | Receiving Fund (Transfer In) | Amount |
|----------------------------|------------------------------|----------|
| General Fund | Food Service Fund | \$ 5,000 |

The transfer to the Food Service Fund was provided by the General Fund for funding for the 2018-2019 school year.

Note 10 - Long-term Debt

Long-term debt activity for the year ended June 30, 2019 can be summarized as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due within One Year |
|----------------------------------------------------|----------------------|-------------|---------------------|---------------------|------------------------|
| Other debt - General obligation | \$ 7,713,750 | \$ - | \$ (517,271) | \$ 7,196,479 | \$ 531,937 |
| Unamortized bond premiums | (99,757) | - | 6,725 | (93,032) | (6,725) |
| Total | 7,613,993 | - | (510,546) | 7,103,447 | 525,212 |
| Compensated absences | 80,227 | - | (7,813) | 72,414 | 14,483 |
| Total governmental activities long-term debt | <u>\$ 7,694,220</u> | <u>\$ -</u> | <u>\$ (518,359)</u> | <u>\$ 7,175,861</u> | <u>\$ 539,695</u> |

General Obligation Bonds and Contracts

The School District issues general obligation bonds to provide for the acquisition and construction of major capital facilities. General obligations have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. The School District's qualified bonds are fully guaranteed by the State of Michigan. The primary source of any required repayment is from the School District's property tax levy; however, the State of Michigan may withhold the School District's state aid funding in order to recover amounts it has paid on behalf of the School District. General obligations outstanding at June 30, 2019 are as follows:

| Purpose | Remaining Annual Installments | Interest Rate(s) (Percent) | Maturing | Outstanding |
|---------------------------------------------------------------------------|----------------------------------|-------------------------------|-------------------|---------------------|
| \$7,070,000 general obligation limited tax building and site bonds (2007) | \$165,000-\$600,000 | 4.10-5.00% | May 1, 2033 | \$ 5,670,000 |
| \$2,600,000 general obligation limited tax QZAB bonds (2007) | \$186,937-\$198,378 | 2.00 | November 30, 2023 | 770,479 |
| \$2,400,000 general obligation limited tax QZAB bonds (2008) | \$180,000-\$198,000 | 3.25 | April 8, 2023 | 756,000 |
| Total governmental activities | | | | <u>\$ 7,196,479</u> |

Other Long-term Liabilities

Compensated absences attributable to the governmental activities will be liquidated primarily by the General Fund. The net pension liability and the net OPEB liability will be liquidated from the funds from which employees' salaries are paid, which is generally the General Fund.

Note 10 - Long-term Debt (Continued)

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

| Years Ending June 30 | Governmental Activities | | |
|-------------------------|-------------------------|--------------|--------------|
| | Other Debt | | |
| | Principal | Interest | Total |
| 2020 | \$ 531,937 | \$ 313,000 | \$ 844,937 |
| 2021 | 551,675 | 296,316 | 847,991 |
| 2022 | 566,489 | 278,757 | 845,246 |
| 2023 | 586,378 | 260,528 | 846,906 |
| 2024 | 405,000 | 241,480 | 646,480 |
| 2025-2029 | 2,305,000 | 907,350 | 3,212,350 |
| 2030-2033 | 2,250,000 | 287,500 | 2,537,500 |
| Total | \$ 7,196,479 | \$ 2,584,931 | \$ 9,781,410 |

Note 11 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical benefits claims. The School District participates in the SET-SEG shared risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as some medical benefits provided to some employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The School District is only self-funded for dental claims that have been incurred through the end of the fiscal year, including both claims that have been reported, as well as those that have not yet been reported but incurred. The obligation is not material to the financial statements.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. The pool does not maintain separate funds for members, and, consequently, the School District's share of the total assets and total equity is unknown. Audited financial statements of the fund are available.

Note 12 - Michigan Public School Employees' Retirement System

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS or the "System"), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. Certain school district employees also receive defined contribution retirement and healthcare benefits through the System. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The System is administered by the Office of Retirement Services (ORS). The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools> or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Note 12 - Michigan Public School Employees' Retirement System (Continued)

Benefits Provided

Benefit provisions of the defined benefit (DB) pension plan and 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 for the defined benefit pension plan and the postemployment healthcare plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of services times a pension factor ranging from 1.25 to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Depending on the member's date of hire, MPSERS offers the option of participating in the defined contribution (DC) plan that provides a 50 percent employer match (up to 3 percent of salary) on employee contributions.

Members are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits, but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100 percent of the participant's final average compensation, with an increase of 2 percent each year thereafter.

Benefits may transfer to a beneficiary upon death and are determined in the same manner as retirement benefits, but with an actuarial reduction.

Benefit terms provide for annual cost of living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. Some members who do not receive an annual increase are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

MPSERS provides medical, prescription drug, dental, and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by MPSERS, with the balance deducted from the monthly pension of each retiree healthcare recipient. Depending on the member's date of hire, this subsidized portion ranges from 80 percent to the maximum allowed by the statute.

Contributions

Public Act 300 of 1980, as amended, required the School District to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by state statute and may be amended only by action of the state Legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

Under the OPEB plan, retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits. Participating employers are required to contribute at that rate.

Note 12 - Michigan Public School Employees' Retirement System (Continued)

Under Public Act 300 of 2012, members were given the choice between continuing the 3 percent contribution to the retiree health care 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 stopped paying the 3 percent contribution to the retiree health care as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

The School District's contributions are determined based on employee elections. There are multiple different pension and healthcare benefit options included in the plan available to employees based on date of hire and the elections available at that time. Contribution rates are adjusted annually by the ORS.

The range of rates is as follows:

| | Pension | OPEB |
|---------------------------------------|-----------------|---------------|
| October 1, 2017 - January 31, 2018 | 13.54% - 17.89% | 7.42% - 7.67% |
| February 1, 2018 - September 30, 2018 | 13.54% - 19.74% | 7.42% - 7.67% |
| October 1, 2018 - September 30, 2019 | 13.39% - 19.59% | 7.57% - 7.93% |

Depending on the plan selected, member pension contributions range from 0 percent up to 7.0 percent of gross wages. For certain plan members, a 4 percent employer contribution to the defined contribution pension plan is required. In addition, for certain plan members, a 3 percent employer match is provided to the defined contribution pension plan.

The School District's required and actual pension contributions to the plan for the year ended June 30, 2019 were \$942,570, which include the School District's contributions required for those members with a defined contribution benefit. The School District's required and actual pension contributions include an allocation of \$382,368 in revenue received from the State of Michigan and remitted to the System to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended June 30, 2019.

The School District's required and actual OPEB contributions to the plan for the year ended June 30, 2019 were \$250,958, which include the School District's contributions required for those members with a defined contribution benefit.

Net Pension Liability

At June 30, 2019, the School District reported a liability of \$10,093,062 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017, which used updated procedures to roll forward the estimated liability to September 30, 2018. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2018 and 2017, the School District's proportion was 0.03357 and 0.03193 percent, respectively, representing a change of 5.15 percent.

Note 12 - Michigan Public School Employees' Retirement System (Continued)

Net OPEB Liability

At June 30, 2019, the School District reported a liability of \$2,747,901 for its proportionate share of the net OPEB liability. The net OPEB liability for fiscal year 2019 was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017, which used updated procedures to roll forward the estimated liability to September 30, 2018. The School District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2018 and 2017, the School District's proportion was 0.03457 and 0.03184 percent, respectively, representing a change of 8.57 percent.

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

For 2019, the School District recognized pension expense of \$1,450,697, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|----------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-------------------------------------|
| | <u> </u> | <u> </u> |
| Difference between expected and actual experience | \$ 46,834 | \$ (73,345) |
| Changes in assumptions | 2,337,545 | - |
| Net difference between projected and actual earnings on pension plan investments | - | (690,109) |
| Changes in proportion and differences between the School District's contributions and proportionate share of contributions | 626,152 | (27,461) |
| The School District's contributions to the plan subsequent to the measurement date | <u>790,124</u> | <u>-</u> |
| Total | <u>\$ 3,800,655</u> | <u>\$ (790,915)</u> |

The \$382,368 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to the UAAL payment will be recognized as state appropriations revenue for the year ending June 30, 2020. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Years Ending</u> | <u>Amount</u> |
|---------------------|---------------------|
| 2020 | \$ 852,023 |
| 2021 | 697,410 |
| 2022 | 487,657 |
| 2023 | <u>182,526</u> |
| Total | <u>\$ 2,219,616</u> |

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

June 30, 2019

Note 12 - Michigan Public School Employees' Retirement System (Continued)

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

For the year ended June 30, 2019, the School District recognized OPEB expense of \$178,083.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|------------------------------------------------------------------------------------------------------------------|--------------------------------------|-------------------------------------|
| Difference between expected and actual experience | \$ - | \$ (511,455) |
| Changes in assumptions | 291,004 | - |
| Net difference between projected and actual earnings on OPEB plan investments | - | (105,608) |
| Changes in proportionate share or difference between amount contributed and proportionate share of contributions | 205,367 | (2,482) |
| Employer contributions to the plan subsequent to the measurement date | 178,362 | - |
| Total | <u>\$ 674,733</u> | <u>\$ (619,545)</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (note that employer contributions subsequent to the measurement date will reduce the net OPEB liability and, therefore, will not be included in future OPEB expense):

| Years Ending | Amount |
|--------------|---------------------|
| 2020 | \$ (36,576) |
| 2021 | (36,576) |
| 2022 | (36,576) |
| 2023 | (14,717) |
| 2024 | 1,271 |
| Total | <u>\$ (123,174)</u> |

Actuarial Assumptions

The total pension liability and total OPEB liability as of September 30, 2018 are based on the results of an actuarial valuation as of September 30, 2017 and rolled forward. The total pension liability and OPEB liability were determined using the following actuarial assumptions:

| | | |
|-------------------------------------|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Actuarial cost method | | Entry age normal |
| Investment rate of return - Pension | 6.00% - 7.05% | Net of investment expenses based on the groups |
| Investment rate of return - OPEB | 7.15% | Net of investment expenses based on the groups |
| Salary increases | 2.75% - 11.55% | Including wage inflation of 2.75% for 2019 and 3.50% for 2018 |
| Healthcare cost trend rate - OPEB | 7.50% | Year 1 graded to 3.0% year 12 |
| Mortality basis | | RP2014 Male and Female Employee Annuitant Mortality tables, scaled 100% (retirees: 82% for males and 78% for females) and adjusted for mortality improvements using projection scale MP2017 from 2006 |
| Cost of living pension adjustments | 3.00% | Annual noncompounded for MIP members |

Note 12 - Michigan Public School Employees' Retirement System (Continued)

Assumption changes as a result of an experience study for the periods from 2012 to 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2017 valuation.

Discount Rate

The discount rate used to measure the total pension liability was 6.00 to 7.05 percent as of September 30, 2018 depending on the plan option. The discount rate used to measure the total OPEB liability was 7.15 percent as of September 30, 2018. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that the School District's contributions will be made at statutorily required rates.

Based on those 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 active and inactive employees. Therefore, the long-term expected rate of return on pension plan and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total OPEB liability.

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 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:

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|--------------------------------------|-------------------|----------------------------------------------|
| Domestic equity pools | 28.00 % | 5.70 % |
| Private equity pools | 18.00 | 9.20 |
| International equity pools | 16.00 | 7.20 |
| Fixed-income pools | 10.50 | 0.50 |
| Real estate and infrastructure pools | 10.00 | 3.90 |
| Absolute return pools | 15.50 | 5.20 |
| Short-term investment pools | 2.00 | - |
| Total | 100.00 % | |

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the School District, calculated using the discount rate depending on the plan option. The following also reflects what the School District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | 1 Percent Decrease (5.00 - 6.05%) | Current Rate (6.00 - 7.05%) | 1 Percent Increase (7.00 - 8.05%) |
|----------------------------------------------|-----------------------------------------|--------------------------------|-----------------------------------------|
| Net pension liability of the School District | \$ 13,251,411 | \$ 10,093,062 | \$ 7,468,987 |

June 30, 2019

Note 12 - Michigan Public School Employees' Retirement System (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the School District, calculated using the current discount rate. It also reflects what the School District's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | 1 Percent Decrease (6.15%) | Current Rate (7.15%) | 1 Percent Increase (8.15%) |
|-------------------------------------------|----------------------------------|-------------------------|----------------------------------|
| Net OPEB liability of the School District | \$ 3,298,799 | \$ 2,747,901 | \$ 2,284,528 |

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the School District, calculated using the current healthcare cost trend rate. It also reflects what the School District's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | 1 Percent Decrease (6.50%) | Current Rate (7.50%) | 1 Percent Increase (8.50%) |
|-------------------------------------------|----------------------------------|-------------------------|----------------------------------|
| Net OPEB liability of the School District | \$ 2,260,118 | \$ 2,747,901 | \$ 3,307,487 |

Pension Plan and OPEB Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued MPSERS financial report.

Payable to the Pension Plan and OPEB Plan

At June 30, 2019, the School District reported a payable of \$120,553 and \$22,309 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2019.

Note 13 - Subsequent Events

On August 28, 2019, the School District refunded the 2008 Building and Site Bonds by issuing the 2019 Refunding Bonds for \$5,685,000, due on May 1, 2033, with interest ranging from 2.00 to 5.00 percent, payable in annual installments of \$200,000 to \$540,000 plus interest.

Required Supplemental Information

Covert Public Schools

Required Supplemental Information Budgetary Comparison Schedule General Fund

Year Ended June 30, 2019

| | Original Budget | Final Budget | Actual | Over (Under) Final Budget |
|---------------------------------------------|---------------------|---------------------|---------------------|------------------------------|
| Revenue | | | | |
| Local sources | \$ 8,018,269 | \$ 8,129,999 | \$ 8,390,878 | \$ 260,879 |
| State sources | 580,552 | 859,999 | 866,845 | 6,846 |
| Federal sources | 410,593 | 477,671 | 424,242 | (53,429) |
| Total revenue | 9,009,414 | 9,467,669 | 9,681,965 | 214,296 |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Basic programs | 2,107,408 | 2,395,452 | 2,282,348 | (113,104) |
| Added needs | 762,022 | 901,651 | 848,030 | (53,621) |
| Support services: | | | | |
| Pupil | 270,367 | 247,403 | 215,842 | (31,561) |
| Instructional staff | 213,167 | 163,263 | 108,106 | (55,157) |
| General administration | 977,662 | 932,285 | 669,370 | (262,915) |
| School administration | 507,659 | 569,698 | 548,220 | (21,478) |
| Business | 87,791 | 194,681 | 49,166 | (145,515) |
| Operations and maintenance | 1,297,078 | 1,504,300 | 1,292,449 | (211,851) |
| Pupil transportation services | 503,139 | 431,417 | 395,426 | (35,991) |
| Central | 268,239 | 265,020 | 233,421 | (31,599) |
| Athletics | 102,273 | 106,771 | 101,447 | (5,324) |
| Community services | 80,500 | 49,623 | 42,834 | (6,789) |
| Debt service | 1,705,320 | 846,267 | 846,265 | (2) |
| Total expenditures | 8,882,625 | 8,607,831 | 7,632,924 | (974,907) |
| Excess of Revenue Over Expenditures | 126,789 | 859,838 | 2,049,041 | 1,189,203 |
| Other Financing Uses - Transfers out | (120,000) | (35,000) | (5,000) | 30,000 |
| Net Change in Fund Balance | 6,789 | 824,838 | 2,044,041 | 1,219,203 |
| Fund Balance - Beginning of year | 2,732,315 | 2,732,315 | 2,732,315 | - |
| Fund Balance - End of year | <u>\$ 2,739,104</u> | <u>\$ 3,557,153</u> | <u>\$ 4,776,356</u> | <u>\$ 1,219,203</u> |

Covert Public Schools

Required Supplemental Information Schedule of the School District's Proportionate Share of the Net Pension Liability Michigan Public School Employees' Retirement System

| | Last Five Plan Years | | | | |
|--------------------------------------------------------------------------------------------------------------------|-------------------------------|--------------|--------------|--------------|--------------|
| | Plan Years Ended September 30 | | | | |
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| School District's proportion of the net pension liability | 0.03357 % | 0.03193 % | 0.02959 % | 0.02954 % | 0.02993 % |
| School District's proportionate share of the net pension liability | \$ 10,093,062 | \$ 8,274,280 | \$ 7,382,198 | \$ 7,215,314 | \$ 6,593,125 |
| School District's covered employee payroll | \$ 2,946,515 | \$ 2,774,744 | \$ 2,509,798 | \$ 2,452,581 | \$ 2,555,692 |
| School District's proportionate share of the net pension liability as a percentage of its covered employee payroll | 342.54 % | 298.20 % | 294.14 % | 294.19 % | 257.98 % |
| Plan fiduciary net position as a percentage of total pension liability | 62.12 % | 63.96 % | 63.01 % | 62.92 % | 66.20 % |

Covert Public Schools

Required Supplemental Information Schedule of Pension Contributions Michigan Public School Employees' Retirement System

| | Last Five Fiscal Years Years Ended June 30 | | | | |
|--------------------------------------------------------------------|-----------------------------------------------|---------------------|---------------------|---------------------|---------------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| Statutorily required contribution | \$ 923,454 | \$ 864,413 | \$ 756,643 | \$ 685,512 | \$ 464,872 |
| Contributions in relation to the statutorily required contribution | 923,454 | 864,413 | 756,643 | 685,512 | 464,872 |
| Contribution Excess | \$ - | \$ - | \$ - | \$ - | \$ - |
| School District's Covered Employee Payroll | \$ 3,003,029 | \$ 2,898,505 | \$ 2,811,243 | \$ 2,470,926 | \$ 2,469,969 |
| Contributions as a Percentage of Covered Employee Payroll | 30.75 % | 29.82 % | 26.91 % | 27.74 % | 18.82 % |

Covert Public Schools

Required Supplemental Information
Schedule of the School District's Proportionate Share
of the Net OPEB Liability
Michigan Public School Employees' Retirement System

| | Last Two Plan Years | |
|-----------------------------------------------------------------------------------------------------------------|--------------------------------------|--------------|
| | Plan Years Ended September 30 | |
| | <u>2018</u> | <u>2017</u> |
| School District's proportion of the net OPEB liability | 0.03457 % | 0.03184 % |
| School District's proportionate share of the net OPEB liability | \$ 2,747,901 | \$ 2,819,459 |
| School District's covered employee payroll | \$ 2,946,515 | \$ 2,774,744 |
| School District's proportionate share of the net OPEB liability as a percentage of its covered employee payroll | 93.26 % | 101.61 % |
| Plan fiduciary net position as a percentage of total OPEB liability | 43.10 % | 36.53 % |

Covert Public Schools

Required Supplemental Information
Schedule of OPEB Contributions
Michigan Public School Employees' Retirement System

| | Last Two Fiscal Years | |
|--------------------------------------------------------------------|------------------------------|---------------------|
| | Years Ended June 30 | |
| | <u>2019</u> | <u>2018</u> |
| Statutorily required contribution | \$ 235,889 | \$ 209,351 |
| Contributions in relation to the statutorily required contribution | <u>235,889</u> | <u>209,351</u> |
| Contribution Excess | <u>\$ -</u> | <u>\$ -</u> |
| School District's Covered Employee Payroll | \$ 3,003,029 | \$ 2,898,505 |
| Contributions as a Percentage of Covered Employee Payroll | 7.86 % | 7.22 % |

June 30, 2019

Pension Information

Ultimately, 10 years of data will be presented in both of the pension-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became applicable.

Benefit Changes

There were no changes of benefit terms for each of the reported plan years ended September 30.

Changes in Assumptions

There were no significant changes of assumptions for each of the reported plan years ended September 30, except for the following:

- 2018 - The discount rate used in September 30, 2017 actuarial valuation decreased by 0.45 percent.
- 2017 - The discount rate used in September 30, 2016 actuarial valuation decreased by 0.50 percent.

OPEB Information

Ultimately, 10 years of data will be presented in both of the OPEB-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became applicable.

Benefit Changes

There were no changes of benefit terms for each of the reported plan years ended September 30.

Changes in Assumptions

There were no significant changes of assumptions for each of the reported plan years ended September 30, except for the following:

- 2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.35 percent.

Other Supplemental Information

Covert Public Schools

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds

June 30, 2019

| | Special Revenue Funds | | Total |
|-------------------------------------|-----------------------|-------------------|------------------|
| | Bookstore Fund | Food Service Fund | |
| Assets | | | |
| Cash and investments | \$ 12,233 | \$ 3,179 | \$ 15,412 |
| Receivables | - | 4,295 | 4,295 |
| Due from other funds | - | 2,500 | 2,500 |
| Inventory | - | 6,726 | 6,726 |
| Total assets | <u>\$ 12,233</u> | <u>\$ 16,700</u> | <u>\$ 28,933</u> |
| Liabilities | | | |
| Accounts payable | \$ - | \$ 1,154 | \$ 1,154 |
| Due to other governmental units | - | 1,147 | 1,147 |
| Accrued liabilities and other | - | 3,770 | 3,770 |
| Total liabilities | - | 6,071 | 6,071 |
| Fund Balances | | | |
| Nonspendable - Inventory | - | 6,726 | 6,726 |
| Restricted - Food service | - | 3,903 | 3,903 |
| Committed - Bookstore | 12,233 | - | 12,233 |
| Total fund balances | <u>12,233</u> | <u>10,629</u> | <u>22,862</u> |
| Total liabilities and fund balances | <u>\$ 12,233</u> | <u>\$ 16,700</u> | <u>\$ 28,933</u> |

Covert Public Schools

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in
Fund Balances
Nonmajor Governmental Funds

Year Ended June 30, 2019

| | Special Revenue Funds | | Total |
|----------------------------------------------------|-----------------------|-------------------|------------------|
| | Bookstore Fund | Food Service Fund | |
| Revenue | | | |
| Local sources | \$ 121 | \$ 5,488 | \$ 5,609 |
| State sources | - | 15,835 | 15,835 |
| Federal sources | - | 364,227 | 364,227 |
| Total revenue | 121 | 385,550 | 385,671 |
| Expenditures - Current - Food services | - | 389,037 | 389,037 |
| Excess of Revenue Over (Under) Expenditures | 121 | (3,487) | (3,366) |
| Other Financing Sources - Transfers in | - | 5,000 | 5,000 |
| Net Change in Fund Balances | 121 | 1,513 | 1,634 |
| Fund Balances - Beginning of year | 12,112 | 9,116 | 21,228 |
| Fund Balances - End of year | <u>\$ 12,233</u> | <u>\$ 10,629</u> | <u>\$ 22,862</u> |

Covert Public Schools

Other Supplemental Information Schedule of Bonded Indebtedness

June 30, 2019

| Years Ending June 30 | 2007 QZAB | 2008 QZAB | Building and Site | Total |
|--------------------------|---------------------|---------------------|-------------------------|---------------------|
| | Principal | Principal | Bond Principal | |
| 2020 | \$ 186,937 | \$ 180,000 | \$ 165,000 | \$ 531,937 |
| 2021 | 190,675 | 186,000 | 175,000 | 551,675 |
| 2022 | 194,489 | 192,000 | 180,000 | 566,489 |
| 2023 | 198,378 | 198,000 | 190,000 | 586,378 |
| 2024 | - | - | 405,000 | 405,000 |
| 2025 | - | - | 420,000 | 420,000 |
| 2026 | - | - | 440,000 | 440,000 |
| 2027 | - | - | 460,000 | 460,000 |
| 2028 | - | - | 480,000 | 480,000 |
| 2029 | - | - | 505,000 | 505,000 |
| 2030 | - | - | 525,000 | 525,000 |
| 2031 | - | - | 550,000 | 550,000 |
| 2032 | - | - | 575,000 | 575,000 |
| 2033 | - | - | 600,000 | 600,000 |
| Total remaining payments | \$ 770,479 | \$ 756,000 | \$ 5,670,000 | \$ 7,196,479 |
| Principal payments due | November 30 | April 8 | May 1 | |
| Interest payments due | November 30 | April 8 | May 1 and November 1 | |
| Interest rate | 2.00% | 3.25% | 4.10% to 5.00% | |
| Original issue | \$ 2,600,000 | \$ 2,400,000 | \$ 7,070,000 | |