Farwell Area Schools
Farwell, Michigan

Financial Statements
With Supplementary Information
June 30, 2020

Roslund Prestage & Company
CERTIFIED PUBLIC ACCOUNTANTS

Farwell Area Schools
Table of Contents
June 30, 2020

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Roslund Prestage & Company
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Education
Farwell Area Schools

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Farwell Area Schools (the District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle
As discussed in the notes to the financial statements, during the year the District implemented GASB Statement No. 84, *Fiduciary Activities.* As a result of the implementation of this Statement, the financial statements have been changed to reflect the new presentation required by GASB Statement No. 84. Our opinion is not modified with respect to this matter.

Other Matters

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

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplemental information, as listed in the table of contents, are presented for purposes of additional analysis and are 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 9, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Sincerely,

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants
October 9, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Farwell Area Schools
Management's Discussion and Analysis
Year Ended June 30, 2020

The following discussion and analysis of the Farwell Area Schools' financial performance provides an overall review of the District's financial activities and position for the fiscal year ended June 30, 2020. Readers should also review the financial statements, the notes to the financial statements and the supplementary information to enhance their understanding of the District's financial performance.

Overview of Financial Statements

The audit consists of four parts: management's discussion and analysis (this section), the basic financial statements, the required supplementary information and other supplemental information. Generally Accepted Accounting Principles (GAAP) requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

District Wide Financial Statements:

The district wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Position of the district wide financial statements.

Fund Financial Statements:

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities that are to be paid with current financial resources are recognized. These statements focus on individual parts of the District rather than the District as a whole.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds. These funds include Debt and School Service Funds that are comprised of Food Service and Athletics and various Agency Accounts.

SUMMARY OF NET POSITION:

The following summarizes the net position:

	Year Ended June 30, 2020	Year Ended June 30, 2019
Assets		
Current assets	$ 19,364,866	$ 5,907,170
Capital assets-net of accumulated depreciation	12,661,198	6,823,693
Total assets	32,026,064	12,730,863
Deferred Outflows of Resources	7,319,328	7,554,239
Liabilites		
Current liabilites	5,170,520	5,247,232
Long-term liabilites	47,608,177	27,792,617
Total liabilites	52,778,697	33,039,849
Deferred Inflows of Resources	5,102,710	4,878,931
Net position		
Investment in capital assets net of related debt	4,287,769	5,355,416
Restricted for capital projects	105,095	105,558
Restricted for food service	411,717	290,532
Restricted for debt service	528,681	238,518
Assigned for next fiscal year budget	420,551	182,814
Unrestricted	(24,289,828)	(23,806,516)
Total net position	$ (18,536,015)	$ (17,633,678)

Analysis of Financial Position:

The preceding table focuses on net position. The School District's net position was $(18,536,015) at June 30, 2020. During the fiscal year ended June 30, 2020, the District's net position decreased by $902,337. Significant factors are discussed below:

Effective for fiscal years beginning after June 15, 2017, GASB Statement 75 requires all reporting units in a multi-employer cost sharing pension plan (like MPSERS) to record a balance sheet liability for their proportionate share of the net liability for other postemployment benefits (OPEB) of the plan. The School District was required to implement GASB 75 in the year ended June 30, 2018 financial statements. Preliminary unaudited estimates from the State for fiscal year 2017 indicate a potential OPEB liability exceeding $6,700,000 for the School District, which is referenced in the Statement of Net Position and the Notes to the Financial Statements. It is highly unlikely the School District would ever be held responsible to pay the potential OPEB amount, but the potential liability, however unlikely to materialize, must be reported to satisfy the new GASB Statement 75 requirements.

As with the previous 3 years, the District is still required to record a balance sheet liability for their proportionate share of the net pension liability of the plan per GASB Statement 68. Preliminary unaudited estimates from the State for fiscal year 2020 indicate a potential pension liability exceeding

$24,000,000 for the School District, which is referenced in the Statement of Net Position and the Notes to the Financial Statements. As with GASB Statement 75, it is highly unlikely the School District would ever be held responsible to pay the potential pension amount, but the potential liability, however unlikely to materialize, must be reported to satisfy the GASB Statement 68 requirements.

Net Changes in Fund Balances

The District's governmental fund balances increased by $14,102,506 this fiscal year. The most vital to our school district is the General Fund. Revenue from General Fund operations exceeded expenditures by $827,612 for the fiscal year ended June 30, 2020. See the section entitled Results of Operations, below, for further discussion on General Fund operations.

	Year Ended	
	June 30,	
	2020	2019
General Fund	$ 827,611	$ (320,344)
2020 Bond Construction Fund	12,843,540	-
Student Activities Fund	20,469	-
Food Service Fund	121,185	121,441
Debt Retirement Fund	290,163	17,151
Capital Projects Fund	(463)	(378)
Total change in		
governmental fund balances	$ 14,102,505	$ (182,130)

The 2020 Bond Construction fund balance increased $12,843,540. The district issued $18,955,000 of building and site bonds in February 2020 to fund a construction project consisting of repairs, additions and upgrades to district facilities that will take place over the next several years.

Food Service fund balance increased by $121,185. Farwell Area Schools continues to operate the food service program very efficiently. Food Service Revenues increased $165,461 and expenses increased $110,702. The increase in revenues is attributed to the implementation of the Unanticipated School Closure meal program and the higher reimbursement rate for those meals.

Debt Retirement fund balance increased by $290,163. This leaves the fund balance at $528,681. Fund balance is required due to possible board of review and Tax Tribunal decisions that result in mid-year payments and interest payments that are due in November before the collection of the tax levy. Current debt levy for 2019/20 was 2.10 mills on all properties.

The Capital Projects fund balance decreased by $463. In 2019/20 the Village of Farwell's street project was $25,463 for the year. The district transferred $25,000 from the General Fund to the Capital Projects fund to cover those expenses.

Debt, Principal Payments

The District made principal payments on bonded, long-term debt obligations that reduced the amount of the District's long-term liabilities by $1,040,000. In June 2005 the District issued $11,420,000 general obligation bond. The proceeds were used for additions and refurbishing of all school buildings. In March 2015 the District issued $4,710,000 of refunding bonds to pay off the remaining amount of the 2005 bonds. The interest rates of the refunding bonds are significantly lower and reduced future debt service payments in excess of $500,000 allowing the District to decrease future millage rates by approximately 0.2 mills.

At June 30, 2020, the District had $18,955,000 in general obligation bonds outstanding for capital projects. During the 2019/20 fiscal year, the District levied a debt millage of 2.10 mills that generated revenue of $905,682 and was based on the taxable value of all properties within the District. The revenue raised by the debt levy is used to pay maturities on the general obligation bonds.

Net Investment in Capital Assets

During 2019/20, the District's net investment in capital assets decreased by $1,067,647. This can be summarized as follows:

	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020
Capital Assets	$ 21,347,065	$ 6,896,214	$ (79,718)	$ 28,163,561
Accumulated Depreciation	(14,523,372)	(1,058,709)	79,718	(15,502,363)
Capital related Debt	(1,468,277)	(20,932,392)	1,183,700	(21,216,969)
Unspent Bond Proceeds	-	12,843,540	-	12,843,540
Net Investment in Capital Assets	$ 5,355,416	$ (2,251,347)	$ 1,183,700	$ 4,287,769

Results of Operations:

Revenues:

	Year Ended June 30, 2020	Year Ended June 30, 2019
General Revenues:		
Property taxes levied	$ 4,907,603	$ 4,885,543
State aid- unrestricted	6,326,429	6,885,250
Investment earnings	28,499	6,498
Other	71,548	57,285
Total general revenues	11,334,079	11,834,576
Operating Grants and Contributions		
Instruction	1,456,689	1,049,580
Food service	986,380	798,557
Long Term Debt	-	-
Total operating grants	2,443,069	1,848,137
Charges for Services		
Supporting services	159,544	69,571
Community Services	105,535	130,773
Food service	35,506	60,271
Total charges for services	300,585	260,615
Total Revenues	$ 14,077,733	$ 13,943,328

Expenses:

	Year Ended June 30, 2020	Year Ended June 30, 2019
Instruction	$ 8,152,562	$ 8,254,109
Supporting services	5,242,826	4,846,898
Community services	10,350	424
Food services	973,951	875,302
Capital Projects	405,405	26,613
Interest on long- term debt	334,288	197,961
Total Expenses	15,119,382	14,201,307
Change in net position	(1,041,649)	(257,979)
Net position - beginning	(17,494,366)	(17,375,699)
Net position - ending	$ (18,536,015)	$ (17,633,678)

Revenues:

I. State of Michigan Unrestricted Aid (State Foundation Grant)

The State of Michigan aid, unrestricted, is determined by the following:

a) State of Michigan State Aid Act per student foundation allowance.

b) Student Enrollment – Blended at 90% of current year's fall count and 10% of prior year's spring count.

c) The District's non-principal residence exemption tax levy based on 18 mills.

Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Farwell Area Schools foundation allowance for 2019/20 was $8,111 per pupil.

Student Enrollment:

The blended student count is based on 90 percent of Farwell's Fall 2019 count of 1,063.57 and 10 percent of the Spring 2019 count of 1,110.61. This formula reveals a blended count of 1,068.27 for Farwell Area Schools during the 2019/20 fiscal year. Farwell Area School's blended student count for the last five years is detailed below.

Fiscal Year	Blended Student Count
2019/2020	1,068.27
2018/2019	1,147.12
2017/2018	1,228.79
2016/2017	1,286.37
2015/2016	1,310.05

Blended student enrollment is expected to decrease 32 student FTEs for the 2020/21 fiscal year, which will reduce revenue by approximately $259,552.

II. Property Taxes levied for General Operations and Debt Service

A significant portion of local revenue is provided from property taxes for the General Fund and Debt Retirement Fund. Farwell Area Schools levied 18.00 mills against the non-principal residence exemption property in the District for general fund operations. Under Michigan law, the tax levy is based on the taxable valuation of properties. Farwell also levied 2.10 mills on all property for principal and interest payments on the 2005 bond issue.

Fiscal Year	Non- Homestead Taxable Values	All Property Taxable Values
2019/2020	$220,890,229	$430,489,478
2018/2019	$212,564,909	$416,123,413
2017/2018	$210,219,430	$401,305,252
2016/2017	214,154,173	396,178,572
2015/2016	209,449,811	399,433,154

III. Operating Grants

The District's federal funds, when combined with Food Service, increased by $594,932 from last fiscal year. This increase in federal funds is largely due to the COVID-19 Cares Act ESSER funding and an increase in the amount received for breakfasts and lunches served under the Unanticipated School Closure Program due to an increase in the rate per meal.

IV. Charges for Services

Support service experienced a $89,973 increase in revenue during 2019/20. This increase can be attributed to GASB 84 which caused Student Activities to be included in the reporting of Fiduciary activities.

Expenses:

Expenses totaled $15,119,382. Farwell Area Schools spent $918,075 more than 2018/19. This represents a 6.1% increase in spending. The increase is due to expenses incurred from recording the changes in the districts portion of the pension and other post-employment benefits, the implementation of GASB 84 for student activity, and the issuance of bonds.

General Fund Budget vs. Actual Revenues & Expenditures

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

Typically, the District amends the budget twice per fiscal year. Once in the spring to incorporate the staffing changes and student count numbers and also a second time, usually in June. During 2019/20 the District amended the budget in February 2020 and again in June 2020.

General fund revenues

Total revenues original budget	$ 11,724,269
Total revenues final budget	12,167,967
Total revenues actual	12,372,180

The District's actual general fund revenues were more than the final budget by $204,213 a variance on overall revenues of 1.7%. A majority of the variance is from state sources. The budget for state sources was $5,931,361. The actual amount recognized as state source revenue during 2019/20 was $6,270,589.

The district budgeted for a $500 per student reduction because of the anticipated revenue shortfall from the state but in July the legislature reduced the shortfall to $175 per student.

General Fund Expenditures

Total expenditures original budget	$	12,139,392
Total expenditures final budget		12,288,882
Total expenditures actual		11,922,303

The District's actual general fund expenditures were less than the final budget by $366,579 a variance of 3%.

Some significant factors that impacted the expenditures side of the budget include:

- With the State of Michigan and school funding being in the state of uncertainty as it is, Farwell Area School's staff has conditioned themselves. Requests for supplies and materials are made only when necessary. Spending is held to a minimum wherever possible.

- The remainder of the budget variance was due to several budget line items in many different function codes that were under or over budget in a cumulative sense.

Economic Factors and Next Year's Budget and Rates

Since most of the District's revenue is derived from the per pupil foundation allowance, student enrollment as reported in the *blended count* is one of the key factors in forecasting revenue. Once the final student count is known in late October, State law requires the District to amend the budget if actual revenues will vary significantly from those originally appropriated.

Actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. "Pro rata" reductions were enacted in the past. Similar reductions remain a possibility for 2020/21 if state revenues fall short of projections. Currently, the revenues for the state's school aid fund have shown more revenues than was projected and for 2020/21 an increase in foundation allowance is projected. There have been many discussions within the state legislature about what to do with school aid fund revenues. It is unknown whether the additional revenues in the school aid fund will be used for the increase in foundation allowance or if the additional revenues will be shifted to pay for something else.
Past years have shown a significant decrease in student enrollment which results in a significant decrease in funding for Farwell Area Schools. The District continues to be fiscally responsible and strives to maintain a balanced budget even with declining enrollment. Uncertainties regarding the economy due to the COVID 19 pandemic leaves the funding for 2021/22 unknown.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or would like additional information, contact the Business Office, Farwell Area Schools.

GOVERNMENT-WIDE
FINANCIAL STATEMENTS

Farwell Area Schools
Statement of Net Position
June 30, 2020

Assets	
Current assets	
Cash and cash equivalents	$ 4,587,226
Investments	12,843,540
Due from other governmental units	1,932,756
Other current assets	1,344
Total current assets	19,364,866
Noncurrent assets	
Capital assets not being depreciated	6,800,656
Capital asset being depreciated, net	5,860,542
Total noncurrent assets	12,661,198
Total assets	32,026,064
Deferred outflows of resources	
Deferred outflow - related to pension	5,918,823
Deferred outflow - related to other post-employment benefits	1,400,505
Total deferred outflows	7,319,328
Liabilities	
Current liabilities	
Accounts payable	132,302
Accrued expenses	838,704
Due to other governmental units	130,786
Unearned revenue	29,784
Short-term note payable	2,441,952
Accrued interest on long-term debt	216,169
General obligation bonds due within one year	800,000
Direct borrowings and direct placements due within one year	409,595
Compensated absences due within one year	49,932
Retirement incentives due within one year	121,296
Total current liabilities	5,170,520
Noncurrent liabilities	
Direct borrowings and direct placements due beyond one year	287,895
General obligation bonds due beyond one year	18,155,000
Premium on bonds	1,564,479
Compensated absences due beyond one year	282,946
Retirement incentives due beyond one year	687,346
Net pension liability	21,942,743
Net other post-employment benefit liability	4,687,768
Total noncurrent liabilities	47,608,177
Total liabilities	52,778,697
Deferred inflows of resources	
Deferred inflow - related to pension	2,116,310
Deferred inflow - related to other post-employment benefits	2,267,398
Deferred inflow - 147c allocation	719,002
Total deferred inflows of resources	5,102,710
Net position	
Net investment in capital assets	4,287,769
Restricted for:	
Food service	411,717
Debt service	528,681
Capital projects	105,095
Unrestricted	(23,869,277)
Total net position	$ (18,536,015)

The notes are an integral part of these financial statements.

Farwell Area Schools
Statement of Activities
For the Year Ended June 30, 2020

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes Net Position
Governmental activities:				
Instruction	$ 8,152,562	$ -	$ 1,456,689	$ (6,695,873)
Support services	5,242,826	159,544	-	(5,083,282)
Community services	10,350	105,535	-	95,185
Food service	973,951	35,506	986,380	47,935
Capital projects	405,405	-	-	(405,405)
Interest and fees on long-term debt	334,288	-	-	(334,288)
Total governmental activities	$ 15,119,382	$ 300,585	$ 2,443,069	(12,375,728)
General revenues:				
Property taxes				4,907,603
State sources				6,326,429
Interest and investment earnings				28,499
Other general revenues				71,548
Total general revenues				11,334,079
Change in net position				(1,041,649)
Net position - beginning, as restated				(17,494,366)
Net position - ending				$ (18,536,015)

FUND FINANCIAL STATEMENTS

Farwell Area Schools
Balance Sheet - Governmental Funds
June 30, 2020

	Major Funds		Non-Major	
	General Fund	2020 Bond Construction Fund	Total	Totals
Assets				
Cash and cash equivalents	$ 3,406,417	$ -	$ 1,180,809	$ 4,587,226
Investments	-	12,843,540	-	12,843,540
Due from other governmental units	1,867,679	-	65,077	1,932,756
Other current assets	1,344	-	-	1,344
Total assets	$ 5,275,440	$ 12,843,540	$ 1,245,886	$ 19,364,866
Liabilities				
Accounts payable	$ 98,626	$ -	$ 33,676	$ 132,302
Accrued expenditures	837,352	-	1,352	838,704
Due to other governmental units	125,202	-	5,584	130,786
Unearned revenue	29,784	-	-	29,784
Short-term note payable	2,441,952	-	-	2,441,952
Total liabilities	3,532,916	-	40,612	3,573,528
Fund balance				
Restricted	-	12,843,540	1,205,274	14,048,814
Unassigned	1,742,524	-	-	1,742,524
Total fund balance	1,742,524	12,843,540	1,205,274	15,791,338
Total liabilities and fund balance	$ 5,275,440	$ 12,843,540	$ 1,245,886	$ 19,364,866

The notes are an integral part of these financial statements.

Farwell Area Schools
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Position of Governmental Activities on the Statement of Net Position
June 30, 2020

Total fund balance - governmental funds		$ 15,791,338
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, therefore, are not reported in the funds:		
Add:	Cost of capital assets	28,163,561
Deduct:	Accumulated depreciation	(15,502,363)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds. Those liabilities consist of:		
Deduct:	2019 Buses - capital lease	(354,412)
Deduct:	2020 Bonds	(18,955,000)
Deduct:	Premium on 2020 Bonds	(1,564,479)
Deduct:	2020 Buses - capital lease	(299,619)
Deduct:	CGRESD Fiber Installation Loan	(43,459)
Other amounts reported in the statement of activities that do not require current financial resources consist of:		
Deduct:	Accrued interest on long-term liabilities	(216,169)
Deduct:	Compensated absences payable	(332,878)
Deduct:	Retirement incentives	(808,642)
Add:	Deferred outflow - related to pension	5,918,823
Add:	Deferred outflow - related to other post-employment benefits	1,400,505
Deduct:	Net pension liability	(21,942,743)
Deduct:	Net other post-employment benefit liability	(4,687,768)
Deduct:	Deferred inflow - related to pension	(2,116,310)
Deduct:	Deferred inflow - related to other post-employment benefits	(2,267,398)
Deduct:	Deferred inflow - 147c allocation	(719,002)
Total net position - governmental activities		$(18,536,015)

Farwell Area Schools
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2020

	Major Funds		Non-Major	
	General Fund	2020 Bond Construction Fund	Total	Totals
Revenues				
Local sources	$ 4,208,858	$ 20,749	$ 1,049,353	$ 5,278,960
State sources	6,270,589	-	23,452	6,294,041
Federal sources	1,863,459	-	986,380	2,849,839
Other sources	29,274	-	-	29,274
Total revenues	12,372,180	20,749	2,059,185	14,452,114
Expenditures				
Instruction				
Basic programs	4,780,550	-	-	4,780,550
Added needs	2,214,013	-	-	2,214,013
Total instruction	6,994,563	-	-	6,994,563
Support services				
Pupil	525,124	-	-	525,124
Instructional staff	141,239	-	-	141,239
General administration	285,297	-	-	285,297
School administration	758,968	-	-	758,968
Business services	455,376	-	-	455,376
Operation and maintenance	1,033,999	-	33,966	1,067,965
Pupil transportation	927,434	-	-	927,434
Central	413,559	-	-	413,559
Other	171,744	-	80,796	252,540
Total support services	4,712,740	-	114,762	4,827,502
Community services	10,138	-	-	10,138
Food service	-	-	844,572	844,572
Facilities	-	7,276,156	25,463	7,301,619
Debt service				
Principal payments	143,699	-	1,040,000	1,183,699
Interest, fees and other	61,163	-	21,324	82,487
Total expenditures	11,922,303	7,276,156	2,046,121	21,244,580
Excess (deficiency) of revenues over expenditures	449,877	(7,255,407)	13,064	(6,792,466)
Other financing sources (uses)				
Proceeds from issuance of long-term debt	412,913	20,482,058	-	20,894,971
Transfers in	55,011	-	473,301	528,312
Transfers (out)	(90,190)	(383,111)	(55,011)	(528,312)
Net change in fund balances	827,611	12,843,540	431,354	14,102,505
Fund balances - beginning	914,913	-	634,608	1,549,521
Fund balances - restatement	-	-	139,312	139,312
Fund balances - ending	$ 1,742,524	$ 12,843,540	$ 1,205,274	$ 15,791,338

Farwell Area Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2020

Net change in fund balances - total governmental funds		$ 14,102,505
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, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Add:	Capital outlay	6,896,214
Deduct:	Depreciation expense	(1,058,709)
Long-term debt proceeds are reported as other financing sources in the governmental funds, thereby increasing fund balances. In the statement of net position, however, issuing long-term debt increases liabilities and has no effect on net position. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.		
Add:	Installment loan payment	7,500
Add:	2015 Refunding bonds payment	980,000
Add:	QZAB Bonds payment	60,000
Add:	2019 Buses - capital lease payment	66,365
Add:	2020 Bond premium amortization	82,342
Add:	2020 Buses - capital lease	55,349
Add:	CGRESD Fiber Installation Loan	14,486
Deduct:	Proceeds from issuance of 2020 Bonds	(18,955,000)
Deduct:	Proceeds from 2020 Bond premium	(1,646,821)
Deduct:	Proceeds from issuance of 2020 capital lease	(354,968)
Deduct:	Proceeds from issuance of fiber installation loan	(57,945)
Revenue in support of pension contributions made subsequent to the measurement date:		
Add:	Change in deferred inflow - 147c allocation	32,388
Certain receivables are not available to pay for current period expenditures and therefore are unavailable in the funds.		
Deduct:	Federal grant revenue received 60+ days from the fiscal year end	(406,770)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		
Deduct:	Change in accrued interest on long-term liabilities	(214,380)
Add:	Change in compensated absences payable	45,926
Add:	Change in retirement incentives	17,220
Deduct:	Change in deferred outflow - related to pension	(650,194)
Add:	Change in deferred outflow - related to other post-employment benefits	415,283
Deduct:	Change in net pension liability	(939,059)
Add:	Change in net other post-employment benefit liability	722,786
Add:	Change in deferred inflow - related to pension	466,332
Deduct:	Change in deferred inflow - related to other post-employment benefits	(722,499)
Change in net position - governmental activities		$ (1,041,649)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Farwell Area Schools (the District) conform to generally accepted accounting principles (GAAP) in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the District. All amounts shown are in dollars.

Reporting Entity

The District is governed by Board of Education members which have the responsibility and control over all activities related to public school education within the District. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. The District receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the District's reporting entity, and which organizations are legally separate, component units of the District. Based on the application of the criteria, the District does not contain any component units.

Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major funds.

The District reports the following major governmental funds:

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

- The *capital projects fund* accounts for the receipt of bond proceeds, transfers from the general fund (as applicable), and the acquisition of fixed assets or construction of capital projects. The District accounts for the 2020 Bond Construction activity in a capital projects fund.

The District reports the following non-major governmental funds:

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

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

- The *capital projects fund* accounts for the receipt of bond proceeds, transfers from the general fund (as applicable), and the acquisition of fixed assets or construction of capital projects.

Measurement Focus and Basis of Accounting

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

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Budgetary Basis of Accounting
Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue funds. The capital projects fund is appropriated on a project-length basis. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

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

- The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
- Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
- The budget was amended during the year with supplemental appropriations, the last one approved prior to year ended June 30. The District does not consider these amendments to be significant.

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance
<u>Cash and Cash Equivalents</u>
The District’s cash and cash equivalents are considered to be demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

<u>Investments</u>
Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold

the investment until maturity.

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

Inventory
Inventory is valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and vehicle repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

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

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

Capital Assets
Capital assets, which include property, plant, equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

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

Assets	Years
Land	Not Depreciated
Construction in process	Not Depreciated
Buildings and improvements	5 - 50
Capital lease	3 - 6
Furniture and equipment	5 - 15
Vehicles	6 - 15

The District reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its fair value. If it is determined that an impairment loss has occurred, the asset is written down to its net realizable value and a related expense is recognized in the current year.

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

expenditure) until then. The District has two items that qualify for reporting in this category. They are the pension and other postemployment benefits related items reported in the government-wide statement of net position. A deferred outflow is recognized for pension and other postemployment benefit related items. These amounts are expensed in the plan year in which they apply.

Deferred Inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category. The first is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period. The second and third items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary.

Compensated Absences

The District's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary and related benefits, where applicable.

Unearned Revenue

Unearned revenues arise when resources are received by the District before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the fund financial statements and Government-wide financial statements, and revenue is recognized.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

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

Pension

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

Postemployment Benefits Other Than Pensions

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

Net Position and Fund Balances

Restricted net position shown in the Government-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental fund financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the government-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

Net Position – Restrictions

Net position in the government-wide financial statements are reported as restricted when constraints placed on net position use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

Fund Balance

The following classifications describe the relative strength of the spending constraints:

- *Nonspendable fund balance* - amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.
- *Restricted fund balance* - amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.
- *Committed fund balance* - amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- *Assigned fund balance* - amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.
- *Unassigned fund balance* - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Property Tax Revenue

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

The District levied the following amounts per $1,000 of assessed valuation. The District levied 18.00 mills for school general operations on the non-homestead taxable value. The District also levied an additional 2.37 mills on all property in the District for the purpose of debt service.

State Aid Revenue

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

The state portion of the Foundation is provided primarily by a state education property tax millage of 6.00 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the Foundation is funded primarily by Non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

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

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 at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS
At June 30th, the carrying amount of the District's cash, cash equivalents and investments were as follows:

Description	Amount
Checking, Savings, & Money Market Accounts	4,587,226
Investments	12,843,540
Total	17,430,766

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2019, the fair value of the District's investments is the same as the value of the pool shares.

The other pooled investment fund is Michigan Class. Michigan Class is considered a local government investment pool of "qualified" investments for Michigan School Districts. Michigan Class is not regulated nor is it registered with the SEC. Michigan Class reports as of year-end, the fair value of the District's investments is the same as the value of the pooled shares.

MILAF, as defined by the GASB, are recorded at amortized cost which approximate fair value. The MILAF fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures. Michigan Class is recorded at fair value and are subject to fair value disclosures.

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

Credit risk: State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk: The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits: In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30th, $4,489,451 of the District's bank balance of $4,739,451 was exposed to custodial credit risk because it was uninsured and uncollateralized. The above amounts include interest bearing accounts. The fiduciary fund balances are not included in the above balances.

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

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

Fair value measurement: The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1: Quoted prices in active markets for identical securities.

- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

- Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

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

Michigan Class investments are subject to the fair value measurement and are level 2. 1 day maturity equals 0.0027, one year equals 1.00

Investment Type	**Fair Value**	**Weighted Average Maturity**	**Standard & Poor's Rating**	**%**
MILAF External Investment Pool - MICMC	1,125,516	0.2052 yrs	AAAm	8.76%
MILAF External Investment Pool - MIMAX	2,018,024	0.2052 yrs	AAAm	15.71%
MILAF TERM	9,700,000	0.2052 yrs	AAAm	75.52%
Total	12,843,540			

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

NOTE 3 - DUE FROM OTHER GOVERNMENTAL UNITS

As of June 30th, due from other governmental units is comprised of the following amounts:

Description	Amount
State aid	965,438
Federal grants and other pass-through agencies	962,792
Other	4,527
Total	1,932,757

No allowance for doubtful accounts is considered necessary.

NOTE 4 - CAPITAL ASSETS
A summary of changes in the District's capital assets follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated					
Land	403,634	-	-	-	403,634
Construction in process	-	6,397,022	-	-	6,397,022
Total capital assets not being depr.	403,634	6,397,022	-	-	6,800,656
Capital assets being depreciated					
Buildings and improvements	19,543,554	89,046	-	-	19,632,600
Capital lease	506,034	354,968	-	-	861,002
Furniture and equipment	329,587	31,270	-	-	360,857
Vehicles	564,256	23,908	(79,718)	-	508,446
Total capital assets being depr.	20,943,431	499,192	(79,718)	-	21,362,905
Accumulated depreciation					
Buildings and improvements	(13,661,947)	(863,235)	-	-	(14,525,182)
Capital lease	(70,282)	(163,221)	-	-	(233,503)
Furniture and equipment	(293,759)	(14,614)	-	-	(308,373)
Vehicles	(497,384)	(17,639)	79,718	-	(435,305)
Total accumulated depreciation	(14,523,372)	(1,058,709)	79,718	-	(15,502,363)
Net capital assets being depreciated	6,420,059	(559,517)	-	-	5,860,542
Net capital assets	6,823,693	5,837,505	-	-	12,661,198

Depreciation for the year ended June 30, 2020 totaled $1,058,709 and was allocated as follows:

Governmental Activities	Amount
Instruction	738,024
Support services	219,458
Food services	101,227
Total depreciation	1,058,709

NOTE 5 - ACCRUED EXPENSES
Accrued expenses as of year-end include amounts due for accrued wages, retirement, FICA, employee benefit insurances, and termination benefits (if any). Accrued wages represent the remaining balance on teacher contracts to be paid during the summer and other salaries and wages earned as of June 30th.

NOTE 6 - DEBT
Short-term debt
On September 12, 2019, the District borrowed $2,400,000 from the Michigan Finance Authority in the form of a State Aid Anticipation note for the purpose of providing funds for school operations. The interest rate is stated at 1.84% and is payable on August 24, 2020. In an event of a default on the note, the state may impose a penalty interest rate and at the state's discretion, accelerate the repayment terms. The short-term debt shown on the financial statements includes $41,952 of accrued interest payable.

On October 16, 2020 (after the end of the fiscal year), the District anticipates borrowing $1,400,000 from the Michigan Finance Authority in the form of a State Aid Anticipation note for the purpose of providing funds for school operations. The interest rate is anticipated to be 0.75% respectively and is payable on August 24, 2021. This loan was acquired after the end of the fiscal year and, therefore, is not shown as a current liability.

	Beginning Balance	Additions	(Deletions)	Ending Balance
Short-term debt	2,400,000	2,400,000	(2,400,000)	2,400,000

Premiums and Discounts
Debt may be issued at par value, with a premium (applicable to debt issued in excess of par value) or at a discount (applicable to debt issued at amounts less than the par value). Premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

The changes in premium and discounts during the fiscal year are as follows:

	Beginning Balance	Additions	(Deletions)	Ending Balance
Premium on long-term debt	-	1,646,821	(82,342)	1,564,479

Retirement Incentives
The District offers incentives for teachers to continue working in the District. Beginning with the eleventh year of service and continuing through the teacher's last year of service, any tenured teacher who chooses to leave the District will be entitled to a severance payment equal to two hundred dollars per year of teaching.

For bargaining unit members hired prior to September 1, 2005, the District will pay a percentage (between 55% and 35%) of the employee's wage for retirement after thirty years of service and less than forty years of service. The final twelve years must be served in the Farwell Area Schools. These payments shall be made to a 403(b) plan account designated by the teacher. The total estimated liability of retirement incentives at June 30th is $808,642.

Long-term debt

	Amount
General obligation bonds:	
2015 refunding bonds due in annual installments of $910,000 to $980,000 through May 1, 2020 with an interest rate from 0.75% to 1.85%	-
QZAB bonds due in annual installments of $55,000 to $60,000 through May 1, 2020, interest at 4.49%	-
2020 School Building and Site Bonds due in annual installments of $800,000 to $1,055,000 through May 1, 2039 with an interest rate from 2.00% to 3.00%	18,955,000
Total general obligation bonds:	18,955,000
Direct borrowings and direct placements:	
Installment purchase agreement due in annual installments of $7,500 annually through April 15, 2020; interest at 4.25%.	-
2019 Capital lease due in annual installments of between $85,257 and $354,412 through July 1, 2020 with an interest rate of 4.42%	354,412
2020 Capital lease due in annual installments of between $40,697 and $216,234 through June 30, 2023 with an interest rate of 4.89%	299,619
CGRESD Fiber Installation Loan due in annual installments of $14,486 through June 30, 2023 with an interest rate of 0.0%	43,459
Total direct borrowings and direct placements:	697,490

General obligation bonds
2015 Refunding Bonds
In March 2015, the School District issued $4,710,000 in 2015 refunding bonds with an interest rate ranging between 0.75% and 1.85%. The 2015 refunding bonds were used to pay $4,725,000 in 2005 School Building & Site Bonds with an average interest rate of 4.17 percent. $15,000 of existing funds in the 2005 debt fund were used to make up the difference between the 2005 principal and 2015 proceeds. As a result, the bonds are considered to be

defeased and the liability for the bonds has been removed from the School District's long-term obligations. The escrow agent paid the 2005 refunding bonds in May 2015. The refunding reduced total debt service payments by approximately $529,565, which represents an economic gain of approximately $512,361. These bonds were paid off during the fiscal year.

QZAB Bond
$580,000 qualified zone academy bond due in annual installments of $55,000 to $60,000 through May 1, 2020, interest at 4.49%. These bonds were paid off during the fiscal year.

2020 School Building and Site Bonds
The 2020 School Building and Site Bonds were issued in February 2020 for the purpose of erecting, furnishing, and equipping an addition to the elementary school; remodeling, furnishing and refurnishing, and equipping and re-equipping school buildings; acquiring and installing instructional technology in school buildings; developing, improving, and equipping athletic facilities, playgrounds, and sites. The 2020 School Building and Site Bonds are due in annual installments of $800,000 to $1,055,000 through May 1, 2039 with an interest rate from 2.00% to 3.00%.

Direct borrowings and direct placements
The District's outstanding notes from direct borrowings and direct placements related to governmental activities contain provisions that in an event of default, either by (1) unable to make principal or interest payments (2) false or misrepresentation is made to the lender (3) become insolvent or make an assignment for the benefit of its creditors (4) if the lender at any time in good faith believes that the prospect of payment of any indebtedness is impaired. Upon the occurrence of any default event, the outstanding amounts, including accrued interest become immediately due and payable.

Installment Purchase agreement
$75,000 installment purchase agreement due in annual installments of $7,500 annually through April 15, 2020; interest at 4.25%. This installment purchase was paid off during the fiscal year.

2019 Capital Lease
The District entered into lease agreements as lessee for financing the acquisition of 6 buses valued at $506,034. The bus has a 6-year estimated useful life. This year, $84,339 was included in depreciation expense. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

2020 Capital Lease
The District entered into lease agreements as lessee for financing the acquisition of 4 buses valued at $366,176. The buses have a 3-year estimated useful life. This year, $78,882 was included in depreciation expense. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

CGRESD Fiber Installation Loan
Clare-Gladwin RESD (CGRESD) agreed to loan the District funds to complete the engineering/make ready costs for fiber installation. The loan agreement was for $57,945 due in annual installments of $14,486 through June 30, 2023 with an interest rate of 0.0%.

Summary of Long-Term Debt
The changes in long-term debt during the fiscal year are as follows:

	Beginning Balance	Additions	(Deletions)	Ending Balance	Due within one year
Long-term debt					
Compensated absences	378,804	10,894	(56,821)	332,878	49,932
Retirement incentive	825,862	106,659	(123,879)	808,642	121,296
General obligation bonds	1,040,000	18,955,000	(1,040,000)	18,955,000	800,000
Direct borrowings and direct placements	428,277	412,914	(143,700)	697,490	409,595
Total long-term debt	2,672,943	19,485,467	(1,364,400)	20,794,010	1,380,823

The requirements to pay principal and interest on the long-term debt outstanding at June 30, 2020, are shown below:

	General Obligation Bonds		Direct Borrowings and Direct Placements	
Year Ended June 30	Principal	Interest	Principal	Interest
2021	800,000	663,436	409,596	28,089
2022	880,000	544,650	57,174	12,661
2023	880,000	518,250	230,720	6,785
2024	905,000	491,850	-	-
2025	935,000	464,700	-	-
2026 - 2030	5,070,000	1,886,250	-	-
2031 - 2035	5,265,000	1,107,300	-	-
2036 - 2040	4,220,000	316,500	-	-
Total long-term debt	18,955,000	5,992,936	697,490	47,535

Village of Farwell Capital Improvement Bonds
On October 1, 2007, the Village of Farwell issued Capital Improvement Bonds in the amount of $565,000 to improve the area surrounding Farwell Area Schools. The District expressed an intent to assist the Village in covering approximately half of the costs related to the capital improvement project. Although no formal agreement was made between the Village and the District, the District has been contributing $25,000 each year from the general fund to assist in covering the bond payments. Due to the lack of a formal agreement between the parties, the District is not obligated to make these payments and therefore a liability has not been recorded.

NOTE 7 - NET INVESTMENT IN CAPITAL ASSETS
As of June 30th, the composition of net investment in capital assets was comprised of the following:

Net investment in capital assets	Amount
Capital assets not being depreciated	6,800,656
Capital asset being depreciated, net	5,860,542
Capital related general obligation bonds	(18,955,000)
Capital related direct borrowings and direct placements	(697,490)
Unspent bond proceeds	12,843,540
Unamortized premium on bond	(1,564,479)
Net investment in capital assets	4,287,769

NOTE 8 - RISK MANAGEMENT

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District participates in commercial insurance for claims relating to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The District has also purchased commercial insurance for medical claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 9 - RETIREMENT BENEFITS

Plan Description

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

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

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

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

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2018 valuation will be amortized over a 20-year period beginning October 1, 2018 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2019.

Benefit Structure	Member	District
Basic	0.0 - 4.0%	18.25%
Member Investment Plan	3.0 - 7.0%	18.25%
Pension Plus	3.0 - 6.4%	16.46%
Pension Plus 2	6.2%	19.59%
Defined Contribution	0.0%	13.39%

Required contributions to the pension plan from the District were $1,760,195 for the year ended September 30, 2019.

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

At June 30, 2020, the District reported a liability of $21,942,743 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2018. The Districts' proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2019, the Districts' proportion was 0.0662590%, which was a decrease of -0.00360930% from its proportion measured as of September 30, 2018.

For the year ending June 30, 2020, the District recognized pension expense of $2,790,303. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	98,354	91,499
Changes of Assumptions	4,296,405	-
Net difference between projected and actual earnings on pension plan investments	-	703,228
Changes in proportion and differences between District contributions and proportionate share of contributions	-	1,321,583
District contributions subsequent to the measurement date	1,524,064	-
Total	5,918,823	2,116,310

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future Pension Expenses)	
2020	898,788
2021	728,850
2022	456,796
2023	194,015

Actuarial Assumptions
Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the District and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the District and plan members to

that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2018
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	
- MIP and Basic Plans:	6.80%
- Pension Plus Plan:	6.80%
- Pension Plus Plan 2:	6.00%
Projected Salary Increases:	2.75 - 11.55%, including wage inflation at 2.75%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	
- Retirees	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
- Active Members	P-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Notes:

- *Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, and rolled forward using generally accepted actuarial procedures, including the experience study.*
- *Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.4977*
- *Recognition period for assets in years: 5.0000*
- *Full actuarial assumptions are available in the 2019 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.*

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2019, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.5%
Private Equity Pools	18.0	8.6
International Equity Pools	16.0	7.3
Fixed Income Pools	10.5	1.2
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.4
Short Term Investment Pools	2.0	0.8
Total	100.0%	
**Long-term rates of return are net of administrative expenses and 2.3% inflation.*		

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

Discount Rate
A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate
The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.80% (6.0% for the Pension Plus Plan), as well as what District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease 5.80% / 5.80% / 5.00%	Current Single Discount Rate Assumption 6.80% / 6.80% / 6.00%	1% Increase 7.80% / 7.80% / 7.0%
28,526,970	21,942,743	16,484,192
* Discount rates listed in the following order: Basic and Member Investment Plan (MIP), Pension Plus, and Pension Plus 2.		

Michigan Public School Employees' Retirement System (MPSERS) Fiduciary Net Position
Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the Michigan Public School Employees' Retirement System (MPSERS)
The District reported payables to the defined benefit pension plan in the amount of $226,084 as of June 30, 2020.

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS (RETIREE HEALTH CARE)

Plan Description
The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State)

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

The System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended). The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System. The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Benefits Provided

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

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

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement.

Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

Contributions

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

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2018 valuation will be amortized over a 20-year period beginning October 1, 2018 and ending September 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for fiscal year ended September 30, 2019.

Benefit Structure	Member	Employer
Premium Subsidy	3.00%	7.93%
Personal Healthcare Fund (PHF)	0.00%	7.57%

Required contributions to the OPEB plan from the District were $448,422 for the year ended September 30, 2019.

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

At June 30, 2020, the District reported a liability of $4,687,768 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2018. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2019, the district's proportion was 0.0653097%, which was a decrease of -0.00275660% from its proportion measured as of October 1, 2018.

For the year ending June 30, 2020, the District recognized OPEB expense of $4,203. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	-	1,720,075
Changes of Assumptions	1,015,744	-
Net difference between projected and actual earnings on OPEB plan investments	-	81,523
Changes in proportion and differences between employer contributions and proportionate share of contributions	151	465,800
Employer contributions subsequent to the measurement date	384,610	-
Total	1,400,505	2,267,398

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future OPEB Expenses)	
2020	(333,937)
2021	(333,937)
2022	(293,249)
2023	(201,538)
2024	(88,842)

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2018
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	6.95%
Projected Salary Increases:	2.75 – 11.55%, including wage inflation at 2.75%
Healthcare Cost Trend Rate:	7.5% Year 1 graded to 3.5% Year 12
Mortality:	
- Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
- Active Members:	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP- 2017 from 2006.
Other Assumptions:	
- Opt Out Assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.
- Survivor Coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
- Coverage Election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Notes:

- *Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual OPEB valuations beginning with the September 30, 2017 valuation. The total OPEB liability as of September 30, 2019, is based on the results of an actuarial valuation date of September 30, 2018, and rolled forward using generally accepted actuarial procedures, including the experience study.*
- *Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.7101 for non-university employers.*
- *Recognition period for assets in years: 5.0000*
- *Full actuarial assumptions are available in the 2019 MPSERS Comprehensive Annual Financial Report found on the ORS website at* www.michigan.gov/orsschools*.*

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on 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 OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2019, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.5%
Private Equity Pools	18.0	8.6
International Equity Pools	16.0	7.3
Fixed Income Pools	10.5	1.2
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.4
Short Term Investment Pools	2.0	0.8
Total	100.0%	
*Long-term rates of return are net of administrative expenses and 2.3% inflation.		

Rate of Return
For the fiscal year ended September 30, 2019, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 5.37%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate
A discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.95%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate
The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 6.95%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

1% Decrease 5.95%	Current Discount Rate 6.95%	1% Increase 7.95%
5,750,252	4,687,768	3,795,577

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

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
3,757,751	4,687,768	5,750,126

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

Payables to the OPEB Plan
The District reported payables to the defined benefit OPEB plan in the amount of $35,812 as of June 30, 2020.

NOTE 11 - TRANSFERS
During the year the following transfers were made between funds:

- The transfer of $2,496 from the general fund to the food service fund for the purpose of paying for breakfasts for At-Risk students.
- The transfer of $62,694 from the general fund to the debt service fund for the purpose of paying for the QZAB Bond payments to retire a portion of the debt incurred.
- The transfer of $25,000 from the general fund to the capital projects fund for the purpose of the Village of Farwell street project.
- The transfer of $383,111 from the bond construction fund to the debt service fund for the purpose of paying the November 2020 interest payment on bonds.
- The transfer of $55,011 from the food service fund to the general fund for the purpose of recovering indirect costs allowable for the Food Service Fund.

NOTE 12 - TAX ABATEMENTS
The District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions, Brownfield Redevelopment Agreements, and Payments in Lieu of Taxes (PILOT) granted by cities, villages and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield Redevelopment Agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties; PILOT programs apply to multiple unit housing for citizens of low income and the elderly. The property taxes abated for all funds by municipality under these programs are as follows:

Municipality	Amount
Clare County	155
Total	180

The taxes abated for the general fund operating millage is considered by the State of Michigan when determining the District's section 22 funding of the State School Aid Act.

There are no significant abatements made by the District.

NOTE 13 – RETIREMENT INCENTIVE PLAN
Certain teachers and administrators of the District have elected to participate in a retirement incentive program established by the District for those meeting various eligibility requirements. The District deposits funds into a special pay plan created in accordance with Section 403b of the Internal Revenue Code on behalf of the qualifying employee. The employee may utilize such funds in a manner specified by the special pay plan. The expenditures for this plan were $41,394 for the year ended June 30. The outstanding long-term liability under this plan at year-end is included in NOTE 7 – DEBT.

NOTE 14 – CONTINGENT LIABILITIES
Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability for the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

NOTE 15 – ECONOMIC DEPENDENCE
The District receives over 50% of its General Fund revenues from the Michigan Department of Education. Due to the significance of this revenue source, the District is considered to be economically dependent.

NOTE 16 – SUBSEQUENT EVENTS
<u>COVID-19</u>
As a result of the COVID-19 global pandemic, the State of Michigan encountered a revenue shortfall resulting in a reduction of revenue for Michigan school districts of $175 per pupil which reduced the state aid payments received in August of 2020. Subsequent to year end, various new revenue sources were approved to provide additional funding for Michigan school districts. Public Act 123 of 2020 was approved and will provide districts an approximate $12.32 per pupil. Also, Public Act 146 of 2020 was approved and will provide districts an additional $350 per pupil Because these acts were approved after June 30, 2020, the related revenues will be recognized in fiscal year ended

June 30, 2021 in accordance with reporting criteria established by the Governmental Accounting Standards Board.

Currently it is not possible to estimate the full impact to the District of future revenue shortfalls, modifications to the per pupil foundation allowance, or additional revenue streams that will be available.

Capital Lease Agreement – Buses
On August 1, 2020, the District entered into a capital lease agreement to purchase 4 buses with a purchase price of $366,176. Since this agreement was signed after the end of the fiscal year, the impact of this transaction is not included in the financial statements

NOTE 17 – RESTATEMENT OF FUND BALANCE/NET POSITION
For the year ended June 30, 2020, the District implemented *GASB Statement No. 84, Fiduciary Activities*.

GASB Statement No. 84, Fiduciary Activities, was issued by the GASB in January 2017. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

As of June 30, 2020, the beginning fund balance was restated as follows:

	Beginning Balance Previously Reported	Restatement	Beginning Balance As Restated
Fund balance – Student Activities Fund (a special revenue fund)	-	139,312	139,312

As of June 30, 2020, the beginning net position was restated as follows:

	Beginning Balance Previously Reported	Restatement	Beginning Balance As Restated
Net position – Governmental Activities	(17,633,678)	139,312	(17,494,366)

NOTE 18 - UPCOMING ACCOUNTING PRONOUNCEMENTS
GASB Statement No. 87, Leases, was issued by the GASB in June 2017. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. *GASB Statement No. 87* will be effective for the District's 2021-2022 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

Farwell Area Schools
Budgetary Comparison Schedule for the General Fund
For the Year Ended June 30, 2020

	Budgeted Amounts			Variance - Actual to
	Original	Final	Actual	Final Budget
Revenues				
Local sources	$ 4,087,064	$ 4,147,618	$ 4,208,858	$ 61,240
State sources	6,436,958	5,931,361	6,270,589	339,228
Federal sources	1,200,247	2,061,764	1,863,459	(198,305)
Other sources	-	27,224	29,274	2,050
Total revenues	11,724,269	12,167,967	12,372,180	204,213
Expenditures				
Instruction				
Basic programs	5,297,706	4,792,032	4,780,550	11,482
Added needs	2,401,137	2,462,188	2,214,013	248,175
Total instruction	7,698,843	7,254,220	6,994,563	259,657
Support services				
Pupil	506,404	540,188	525,124	15,064
Instructional staff	38,335	148,316	141,239	7,077
General administration	276,030	286,953	285,297	1,656
School administration	761,852	764,293	758,968	5,325
Business services	191,686	461,387	455,376	6,011
Operation and maintenance	995,613	1,143,367	1,033,999	109,368
Pupil transportation	868,306	944,695	927,434	17,261
Central	434,667	379,610	413,559	(33,949)
Other	207,614	208,156	171,744	36,412
Total support services	4,280,507	4,876,965	4,712,740	164,225
Community services	8,975	9,087	10,138	(1,051)
Debt service				
Principal payments	148,067	148,110	143,699	4,411
Interest, fees and other	3,000	500	61,163	(60,663)
Total expenditures	12,139,392	12,288,882	11,922,303	366,579
Excess (deficiency) of revenues over expenditures	(415,123)	(120,915)	449,877	570,792
Other financing sources (uses)				
Proceeds from capital lease	320,000	354,968	412,913	57,945
Transfers in	-	55,000	55,011	11
Transfers (out)	(87,694)	(87,659)	(90,190)	(2,531)
Net change in fund balances	(182,817)	201,394	827,611	626,217
Fund balances - beginning	914,913	914,913	914,913	-
Fund balances - ending	$ 732,096	$ 1,116,307	$ 1,742,524	$ 626,217

Farwell Area Schools
Required Supplemental Information
Michigan Public School Employees Retirement Plan
Prospective 10-year trend information

Schedule of the District's Proportionate Share of the Net Pension Liability	Plan year Sept 30, 2014	Plan year Sept 30, 2015	Plan year Sept 30, 2016	Plan year Sept 30, 2017	Plan year Sept 30, 2018	Plan year Sept 30, 2019
Reporting unit's proportion of net pension liability (%)	0.0772668%	0.0767804%	0.0746003%	0.0724857%	0.0698683%	0.0662590%
Reporting unit's proportionate share of net pension liability	$ 17,019,183	$ 18,753,638	$ 18,612,162	$ 18,784,113	$ 21,003,684	$ 21,942,743
Reporting unit's covered employee payroll	$ 6,566,005	$ 6,412,898	$ 6,166,149	$ 6,003,801	$ 5,789,884	$ 5,704,348
Reporting unit's proportionate share of net pension liability as a percentage of its covered employee payroll (%)	259.20%	292.44%	301.84%	312.87%	362.77%	384.67%
Plan fiduciary net position as a percentage of total pension liability	66.20%	62.92%	63.01%	63.27%	62.36%	60.31%

Note: Amounts were determined as of 9/30 of each fiscal year.

Schedule of the District's Pension Contributions	Fiscal year June 30, 2015	Fiscal year June 30, 2016	Fiscal year June 30, 2017	Fiscal year June 30, 2018	Fiscal year June 30, 2019	Fiscal year June 30, 2020
Statutorily required pension contributions	$ 1,632,483	$ 1,786,261	$ 1,765,753	$ 1,826,021	$ 1,826,021	$ 1,639,830
Pension contributions in relation to statutorily required contributions	1,632,483	1,786,261	1,765,753	1,826,021	1,826,021	1,639,830
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Reporting unit’s covered-employee payroll	$ 6,425,260	$ 6,150,137	$ 6,095,591	$ 5,791,211	$ 5,726,451	$ 5,442,385
Pension contributions as a percentage of covered-employee payroll	25.41%	29.04%	28.97%	31.53%	31.89%	30.13%

Note: Amounts were determined as of 6/30 of each year.

Notes to the Required Supplementary Information

Changes of benefit terms: There were no changes of benefit terms
Changes of assumptions: There were no changes of benefit assumptions

Farwell Area Schools
Required Supplemental Information
Michigan Public School Employees Retirement Plan
Prospective 10-year trend information

Schedule of the District's Proportionate Share of the Net OPEB Liability	Plan year Sept 30, 2017	Plan year Sept 30, 2018	Plan year Sept 30, 2020
Reporting unit's proportion of net OPEB liability (%)	0.07243374%	0.06806630%	0.06530970%
Reporting unit's proportionate share of net OPEB liability	$ 6,414,349	$ 5,410,554	$ 4,687,768
Reporting unit's covered employee payroll	$ 6,003,801	$ 5,789,884	$ 5,704,348
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered employee payroll (%)	106.84%	93.45%	82.18%
Plan fiduciary net position as a percentage of total OPEB liability	36.39%	42.95%	48.46%

Note: Amounts were determined as of 9/30 of each fiscal year.

Schedule of the District's OPEB Contributions	Fiscal year June 30, 2018	Fiscal year June 30, 2019	Fiscal year June 30, 2020
Statutorily required OPEB contributions	$ 505,386	$ 505,386	$ 434,995
OPEB contributions in relation to statutorily required contributions	505,386	505,386	434,995
Contribution deficiency (excess)	$ -	$ -	$ -
Reporting unit’s covered-employee payroll	$ 5,791,211	$ 5,726,451	$ 5,442,385
OPEB contributions as a percentage of covered-employee payroll	8.73%	8.83%	7.99%

Note: Amounts were determined as of 6/30 of each year.

Notes to the Required Supplementary Information

Changes of benefit terms: There were no changes of benefit terms
Changes of assumptions: There were no changes of benefit assumptions

OTHER SUPPLEMENTARY INFORMATION

Farwell Area Schools
Non-Major Governmental Funds
Combining Balance Sheet
June 30, 2020

	Food Service	Student Activities	Debt Service	Capital Projects	Total Non-Major Governmental Funds
Assets					
Cash and cash equivalents	$ 386,752	$ 159,781	$ 529,181	$ 105,095	$ 1,180,809
Due from other governmental units	65,077	-	-	-	65,077
Total assets	$ 451,829	$ 159,781	$ 529,181	$ 105,095	$ 1,245,886
Liabilities					
Accounts payable	$ 33,176	$ -	$ 500	$ -	$ 33,676
Accrued expenditures	1,352	-	-	-	1,352
Due to other governmental units	5,584	-	-	-	5,584
Total liabilities	40,112	-	500	-	40,612
Fund balance					
Restricted	411,717	159,781	528,681	105,095	1,205,274
Total fund balance	411,717	159,781	528,681	105,095	1,205,274
Total liabilities and fund balance	$ 451,829	$ 159,781	$ 529,181	$ 105,095	$ 1,245,886

The notes are an integral part of these financial statements.

Farwell Area Schools
Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2020

	Food Service	Student Activities	Debt Service	Capital Projects	Total Non-Major Governmental Funds
Revenues					
Local sources	$ 42,406	$ 101,265	$ 905,682	$ -	$ 1,049,353
State sources	23,452	-	-	-	23,452
Federal sources	986,380	-	-	-	986,380
Total revenues	1,052,238	101,265	905,682	-	2,059,185
Expenditures					
Support services					
Operation and maintenance	33,966	-	-	-	33,966
Other	-	80,796	-	-	80,796
Food service	844,572	-	-	-	844,572
Facilities	-	-	-	25,463	25,463
Debt service					
Principal payments	-	-	1,040,000	-	1,040,000
Interest, fees and other	-	-	21,324	-	21,324
Total expenditures	878,538	80,796	1,061,324	25,463	2,046,121
Excess (deficiency) of revenues over expenditures	173,700	20,469	(155,642)	(25,463)	13,064
Other financing sources (uses)					
Transfers in	2,496	-	445,805	25,000	473,301
Transfers (out)	(55,011)	-	-	-	(55,011)
Net change in fund balances	121,185	20,469	290,163	(463)	431,354
Fund balances - beginning	290,532	-	238,518	105,558	634,608
Fund balances - restatement	-	139,312	-	-	139,312
Fund balances - ending	$ 411,717	$ 159,781	$ 528,681	$ 105,095	$ 1,205,274