

**NEGAUNEE PUBLIC SCHOOLS
NEGAUNEE, MICHIGAN**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Negaunee Public Schools
101 South Pioneer Avenue, Suite 1
Negaunee, Michigan 49866

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 Negaunee Public Schools (the School District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2018, 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 described in Note Z to the financial statements, in fiscal year 2017-18, the School District adopted new accounting guidance, *GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 required supplemental information, as listed on 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 School District's basic financial statements. The Other Supplemental Information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Other Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United

Board of Education of the
Negaunee Public Schools

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 10, 2018, on our consideration of the School 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 School District's internal control over financial reporting and compliance.

Anderson, Tackman & Company
Certified Public Accountants

October 10, 2018

Negaunee Public Schools

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of Negaunee Public Schools (the School District) financial performance provides an overview of the School District's financial activities for the year ended June 30, 2018. Please read it in conjunction with the financial statements, which begin as listed in the table of contents.

FINANCIAL HIGHLIGHTS

- Net position for the School District was reported at (\$17,558,067). Net position is comprised of 100% governmental activities.
- During the year, the School District expenses were \$16,730,932, while revenues from all sources totaled \$17,408,476, resulting in a change in net position of \$677,544.
- The general fund reported an increase of \$988,993 before other financing sources (uses) and a total increase of \$778,136. This is \$584,507 or 302% higher than the forecasted change of \$193,629. This was the result of revenues being \$194,018 more than forecasted, expenditures being \$381,541 less than forecasted, and other financing uses being \$8,948 less than forecasted.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District financially as a whole. The *District-wide Financial Statements* Statement of Net Position and the Statement of Activities, as listed in the table of contents, provide information about the activities of the School District as a whole and presents a longer-term view of those finances. The fund financial statements present the next level of detail and start as listed in the table of contents. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements also report the School District's operations in more detail than the district-wide statements by providing information about the School District's most significant fund, as listed in the footnotes to the financial statements, with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Reporting the School District as a Whole – *District-wide Financial Statements*

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

These two statements report the School District's net position and changes in it. The School District's net position – the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources – is one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position – as reported in the Statement of Activities – is an indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as private-sector companies do. One must consider other non-financial factors, such as the quality of education provided, the safety of the schools and the condition of the School District's capital assets, to assess the overall financial health of the School District.

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

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

Our analysis of the School District's major funds begins on the pages below. The fund financial statements begin as listed in the table of contents and provide detailed information on the most significant funds – not the School District as a whole. Some funds are required to be established by State law, and by bond covenants. However, the School District's Board has established other funds to help it control and manage money for particular purposes. The School District has only governmental funds which use the following accounting method.

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

The School District as a Whole

Table 1 provides a summary of the School District's net position as of June 30, 2018 and 2017:

**Table 1
Net Position**

	Governmental Activities 2018	Governmental Activities 2017
Current and other assets	\$5,779,489	\$4,652,465
Capital assets, net	12,302,341	12,509,937
Total Assets	<u>18,081,830</u>	<u>17,162,402</u>
Deferred outflows of resources	<u>6,390,976</u>	<u>4,459,854</u>
Current liabilities	1,602,482	1,521,469
Long-term liabilities	38,277,891	29,038,098
Total Liabilities	<u>39,880,373</u>	<u>30,559,567</u>
Deferred inflows of resources	<u>2,150,500</u>	<u>668,349</u>
Net Position:		
Net investment in capital assets	8,005,803	7,956,580
Restricted	1,378,714	1,113,436
Unrestricted	(26,942,584)	(18,675,676)
Total Net Position	<u>(\$17,558,067)</u>	<u>(\$9,605,660)</u>

The School District's net position was (\$17,558,067) at June 30, 2018. Net investment in capital assets totaling \$8,005,803, compares the original cost, less depreciation of the School District's capital assets to long-term debt, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limits the School District's ability to use the net position for day-to-day operations. The remaining amount of net position of (\$26,942,584) was unrestricted.

The (\$26,942,584) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year. During the current year, the School District adopted GASB No. 75 to record its proportionate share of the net OPEB liability. The adoption of GASB No. 75 was the main perpetrator of the large swing in the School District's unrestricted net position as compared to the prior year. For more information on the adoption of GASB No. 75 please see the notes to the financial statements.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net position for fiscal year 2018 and 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

**Table 2
Statement of Activities**

	Governmental Activities 2018	Governmental Activities 2017
Revenues:		
Program Revenues:		
Charges for services	\$1,481,254	\$1,440,673
Operating grants and contributions	3,425,943	2,900,193
Capital grants and contributions	-	-
General Revenues:		
Property taxes	2,853,473	2,632,997
State sources not restricted to specific program	9,520,300	9,331,902
Gain (Loss) on sale of capital assets	1,654	5,396
Interest and investment earnings	26,922	15,209
Miscellaneous	98,930	49,087
Total Revenues	<u>17,408,476</u>	<u>16,375,457</u>
Program Expenses:		
Instruction	10,271,252	10,015,583
Supporting services	4,657,559	4,604,556
Community services	100	-
Payments to other governments	51,866	-
Facilities acquisition	-	50,188
School lunch activities	448,159	483,913
Athletic activities	396,991	384,046
Interest on long-term debt	98,669	101,266
Depreciation – unallocated	806,336	761,952
Total Expenses	<u>16,730,932</u>	<u>16,401,504</u>
Increase (decrease) in net position	677,544	(26,047)
Net position, beginning	(9,605,660)	(9,579,613)
Prior period adjustment	(8,629,951)	-
Neg position, beginning, as restated	<u>(18,235,611)</u>	<u>(9,579,613)</u>
Net Position, Ending	<u>(\$17,558,067)</u>	<u>(\$9,605,660)</u>

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$16,730,932. Certain activities were partially funded from those who benefited from the programs in the amount of \$1,481,254 or by other governments and organizations that subsidized certain programs with grants and categoricals in the amount of \$3,425,943. We paid for the remaining “public benefit” portion of our governmental activities with \$2,853,473 in taxes, \$9,520,300 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net position for the year of \$677,544. The key changes in the net position were the result of:

- Change in fund balance of governmental funds of \$1,044,244
- Depreciation expense of (\$806,336)
- Current year capital asset purchases of \$598,740
- Proceeds from borrowing totaling \$-0-

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

- Repayment of bond principal of \$256,819
- Change in net pension liability and related of (\$833,863)
- Change in net OPEB liability and related of \$355,295
- Unamortized bond premiums of \$41,724
- Deferred amounts on refunding of \$39,333
- Change in accrued interest on long term debt of \$1,767
- Change in compensated absences of (\$20,179)

Table 3 presents the cost of each of the School District’s largest activities as well as each program’s net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the School District’s operation.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost (Benefit) of Services
Instruction	\$10,271,252	\$6,266,706
Supporting services	4,657,559	4,451,724
School lunch activities	448,159	(115)

The net cost shows the financial burden that was placed on the State and the School District’s taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of the School District’s operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available financial resources.

The School District’s Funds

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

As the School District completed the year, its governmental funds (as presented in the balance sheet as listed in the table of contents) reported a combined fund balance of \$4,205,821, an increase of \$1,044,244 from the beginning of the year.

During the annual School election in June of 2008, and a renewal in August of 2012, the residents of the School District renewed a proposal to establish a Sinking Fund to be used as allowed by law. In August of 2017, the residents of the School District approved a new sinking fund millage allowing the purchase of school security improvements and the acquisition or upgrading of technology and all other purposes authorized by law. For the 2017-18 school year, \$618,194 in revenues were collected from the millage assessed for this purpose.

General Fund Budgetary Highlights

Over the course of the year, the Board of Education revises the budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. Accordingly, the Board of Education amended the budgets in January and again in June.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

A detailed schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. A summary of this information is provided below:

BUDGETED REVENUES

General Fund revenues changed from original to final budget during the year as follows:

	Revenues		Variance	
	Original	Final	Positive / (Negative)	
	Budget	Budget	Amount	Percentage
Total revenues	\$14,290,042	\$15,325,458	\$1,035,416	7.25%

A majority of the change between the original and final budget had to do with State sources. There were also smaller changes to local and federal revenues. Local revenues were adjusted during the year to account for actual revenues being received by local sources including, but not limited to, property taxes, local grants, and private contributions. Federal revenues were adjusted during the year to account for actual grant revenues received and expected to be received.

BUDGETED EXPENDITURES

General Fund expenditures changed from the original to final budget during the year as follows:

	Expenditures		Variance	
	Original	Final	Positive / (Negative)	
	Budget	Budget	Amount	Percentage
Total expenditures	\$14,513,959	\$14,912,024	(\$398,065)	(2.74%)

Budgeted expenditures were increased during the year to accommodate actual costs being incurred by the School District. A majority of the change relates to costs associated with pupil instruction. The Board of Education adjusts expenditures based on anticipated costs associated with grants received via Local, State, and Federal sources. This accounts for a majority of the change. There were also slight changes related to pupil services and transportation.

ACTUAL REVENUES

The General Fund actual revenues differed from the final budget as follows:

	Revenues		Variance	
	Final	Actual	Positive / (Negative)	
	Budget	Actual	Amount	Percentage
Total revenues	\$15,325,458	\$15,519,476	\$194,018	1.27%

Total actual revenues came in higher than the final budget because the revenue from local and federal, sources came in slightly higher than expected while state sources came in slightly lower.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

ACTUAL EXPENDITURES

The General Fund actual expenditures differed from the final budget as follows:

	Expenditures		Variance	
	Final	Actual	Positive / (Negative)	
	Budget		Amount	Percentage
Total expenditures	\$14,912,024	\$14,530,483	\$381,541	2.56%

Total actual expenditures came in lower than the final budget because the total cost of instruction was less than anticipated coupled with supporting services also being less than anticipated.

Enrollment

The School District's 2017-18 State aid blended membership enrollment from the fall count totaled 1,524. This is an increase of twelve students from the previous year. While the School District has experienced a recent increase in enrollment, we anticipate a slow increase in coming years. The School District is located in Michigan's Upper Peninsula, which is currently experiencing an economic recovery. There is potential for the re-opening of the Empire Mine which would have a positive impact on the local economy. We expect this economic recovery to continue through the next school year.

Enrollment changes over the last five years can be illustrated as follows:

Fiscal Year	(Fall) Student FTE	Increase (Decrease) in Student Enrollment (FTE)
2017-2018	1,524	12
2016-2017	1,512	(2)
2015-2016	1,514	29
2014-2015	1,485	(22)
2013-2014	1,507	1

Student enrollment is important to the financial health of the School District because State funding is based on a per pupil formula.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2018, the School District had \$12,302,341 invested in a variety of capital assets including land, construction in progress, land improvements, buildings, equipment and furnishings, and school buses. (See Table 4 below).

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

**Table 4
Capital Assets at Year-End
(Net of Depreciation)**

	Governmental Activities – 2018	Governmental Activities – 2017
Land	\$92,536	\$92,536
Construction in progress	39,233	-
Land improvements	800,641	812,239
Buildings and additions	10,842,498	11,077,850
Equipment and furniture	246,771	211,339
School buses	280,662	315,973
Total	<u>\$12,302,341</u>	<u>\$12,509,937</u>

This year’s additions of \$598,740 included building renovations at the High School, Middle School, and Elementary School. See notes to the financial statements for additional information.

Debt

At June 30, 2018, the School District had \$4,296,538 in outstanding debt as depicted in Table 5 below.

**Table 5
Outstanding Debt at Year-End**

	Governmental Activities – 2018	Governmental Activities – 2017
General obligation bonds	\$4,260,000	\$4,505,000
Notes payable	36,538	48,357
Total	<u>\$4,296,538</u>	<u>\$4,553,357</u>

We present more detailed information about our long-term debt in the notes to the financial statements.

Economic Factors and Next Year’s Budgets

Our elected officials and administration consider many factors when setting the School District’s fiscal year 2019 budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2019 fiscal year budget was adopted in June 2018, based on an estimate of students that will be enrolled in October 2018. Approximately 75 % to 80 % of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general obligations. As a result, the district funding is heavily dependent on the State’s ability to fund local school operations. Based on early enrollment data at the start of the 2018-2019 school year, we anticipate that the fall student count will be in line with the estimates used in creating the 2019 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget, if actual district resources are not sufficient to fund original appropriations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Contacting the School District's Financial Management

This financial report is designated to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Negaunee Public Schools Administration, 101 South Pioneer Avenue, Suite 1, Negaunee, Michigan, 49866.

Negaunee Public Schools

STATEMENT OF NET POSITION

June 30, 2018

	Governmental Activities
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 666,983
Investments	2,331,175
Receivables:	
Accounts receivable	4,775
Due from other governmental units	2,571,310
Inventories	5,077
Prepaid expenses	200,169
Non-current Assets:	
Capital Assets:	
Land and construction in progress	131,769
Other capital assets, net	<u>12,170,572</u>
TOTAL ASSETS	<u>18,081,830</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to proportionate share of net pension liability	3,713,392
District's contributions made subsequent to pension measurement date	2,223,081
Deferred outflows related to proportionate share of net OPEB liability	3,105
District's contributions made subsequent to OPEB measurement date	<u>451,398</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>6,390,976</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	15,566
Accrued liabilities	708,562
Accrued interest payable	28,814
State aid notes payable	500,000
Due to other governmental units	304,862
Unearned grant revenue	44,678
Non-current Liabilities:	
Portion due or payable within one year	
Notes payable	11,997
Bonds payable	265,000
Employee benefit obligations	-
Portion due or payable after one year	
Notes payable	24,541
Bonds payable	3,995,000
Premium on bonds	500,688
Employee benefit obligations	285,590
Proportionate share of net pension liability	24,751,375
Proportionate share of net OPEB liability	<u>8,443,700</u>
TOTAL LIABILITIES	<u>39,880,373</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred gain on refunding	511,334
Deferred inflows related to proportionate share of net pension liability	1,353,707
Deferred inflows related to proportionate share of net OPEB liability	<u>285,459</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>2,150,500</u>
NET POSITION	
Net investment in capital assets	8,005,803
Restricted	1,378,714
Unrestricted	<u>(26,942,584)</u>
TOTAL NET POSITION	<u>\$ (17,558,067)</u>

The accompanying notes are an integral part of the financial statements.

Negaunee Public Schools

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

Function / Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 10,271,252	\$ 875,454	\$ 3,129,092	\$ -	\$ (6,266,706)
Supporting services	4,657,559	160,835	45,000	-	(4,451,724)
Community services	100	-	-	-	(100)
Payments to other governments	51,866	-	-	-	(51,866)
Facilities acquisition	-	-	-	-	-
School lunch activities	448,159	196,423	251,851	-	115
Athletic activities	396,991	248,542	-	-	(148,449)
Interest on retirement of debt	98,669	-	-	-	(98,669)
Depreciation - unallocated	806,336	-	-	-	(806,336)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 16,730,932</u>	<u>\$ 1,481,254</u>	<u>\$ 3,425,943</u>	<u>\$ -</u>	<u>(11,823,735)</u>
General revenues:					
Taxes					
Property taxes, levied for general purposes 1,716,843					
Property taxes, levied for debt services 518,436					
Property taxes, levied for sinking fund 618,194					
State Aid not restricted to specific purposes					
General 9,520,300					
Contributions and other unrestricted grants -					
Gain (Loss) on sale of capital assets 1,654					
Interest and investment earnings 26,922					
Miscellaneous 98,930					
TOTAL GENERAL REVENUES					<u>12,501,279</u>
CHANGES IN NET POSITION					677,544
Net Position, July 1					(9,605,660)
Prior period adjustment					(8,629,951)
Net Position, July 1, as restated					<u>(18,235,611)</u>
NET POSITION, JUNE 30					<u>\$ (17,558,067)</u>

The accompanying notes are an integral part of the financial statements.

Negaunee Public Schools

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2018

	<u>General Fund</u>	<u>Capital Projects Sinking Fund</u>	<u>Other Non-major Governmental Funds</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 533,822	\$ 80,706	\$ 52,455	\$ 666,983
Investments	1,235,243	955,196	140,736	2,331,175
Receivables:				
Accounts receivable	4,731	-	-	4,731
Due from other governmental units	2,555,619	-	15,691	2,571,310
Due from other funds	8,000	-	44	8,044
Inventories	-	-	5,077	5,077
Prepaid expenditures	200,169	-	-	200,169
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	4,537,584	1,035,902	214,003	5,787,489
DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 4,537,584	\$ 1,035,902	\$ 214,003	\$ 5,787,489
	<hr/>	<hr/>	<hr/>	<hr/>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ 15,566	\$ 15,566
Accrued liabilities	708,562	-	-	708,562
Due to other governmental units	304,403	-	459	304,862
Due to other funds	-	-	8,000	8,000
State aid notes payable	500,000	-	-	500,000
Unearned grant revenue	3,029	-	41,649	44,678
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	1,515,994	-	65,674	1,581,668
DEFERRED INFLOWS OF RESOURCES	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
FUND BALANCES				
Non-spendable	200,169	-	5,077	205,246
Restricted	-	1,035,902	137,566	1,173,468
Committed	-	-	-	-
Assigned	131,161	-	5,686	136,847
Unassigned	2,690,260	-	-	2,690,260
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL FUND BALANCES	3,021,590	1,035,902	148,329	4,205,821
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 4,537,584	\$ 1,035,902	\$ 214,003	\$ 5,787,489
	<hr/>	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of the financial statements.

Negaunee Public Schools

GOVERNMENTAL FUNDS

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

June 30, 2018

Total Fund Balances for Governmental Funds \$ 4,205,821

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.

Cost of capital assets	\$ 24,089,436	
Accumulated depreciation	<u>(11,787,095)</u>	12,302,341

Proportionate share of net pension liability and related deferred outflows and inflows is not due and payable in the current period and is not reported in the funds.

Proportionate share of net pension liability	24,751,375	
Deferred outflows related to proportionate share of net pension liability	(3,713,392)	
District's contributions made subsequent to pension measurement date	(2,223,081)	
Deferred inflows related to proportionate share of net pension liability	<u>1,353,707</u>	(20,168,609)

Proportionate share of net OPEB liability and related deferred outflows and inflows is not due and payable in the current period and is not reported in the funds.

Proportionate share of net OPEB liability	8,443,700	
Deferred outflows related to proportionate share of net OPEB liability	(3,105)	
District's contributions made subsequent to OPEB measurement date	(451,398)	
Deferred inflows related to proportionate share of net OPEB liability	<u>285,459</u>	(8,274,656)

Long-term liabilities are not due and payable in the current period and are not reported in the funds. Long-term liabilities at year-end consist of:

Accrued Interest	28,814	
Notes payable - current portion	11,997	
Bonds payable - current portion	265,000	
Employee benefits payable - current portion	-	
Notes payable - long-term portion	24,541	
Bonds payable - long-term portion	3,995,000	
Employee benefits payable	285,590	
Unamortized bond premium	500,688	
Deferred gain on refunding bonds	<u>511,334</u>	<u>(5,622,964)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (17,558,067)

The accompanying notes are an integral part of the financial statements.

Negaunee Public Schools

GOVERNMENTAL FUNDS

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2018

	<u>General Fund</u>	<u>Capital Projects Sinking Fund</u>	<u>Other Non-major Governmental Funds</u>	<u>Total</u>
REVENUES:				
Local sources	\$ 3,009,379	\$ 660,237	\$ 975,257	\$ 4,644,873
State sources	12,281,265	-	6,974	12,288,239
Federal sources	228,832	-	244,878	473,710
TOTAL REVENUES	<u>15,519,476</u>	<u>660,237</u>	<u>1,227,109</u>	<u>17,406,822</u>
EXPENDITURES:				
Current:				
Instruction	9,920,921	-	-	9,920,921
Supporting services	4,545,047	10	64,061	4,609,118
Community services	100	-	-	100
Payments to other governments	51,866	-	-	51,866
Facilities acquisition	-	493,301	5,464	498,765
Debt service:				
Principal	11,819	-	245,000	256,819
Interest	730	-	180,113	180,843
Paying agent fees	-	-	650	650
School lunch activities	-	-	448,159	448,159
Athletic activities	-	-	396,991	396,991
TOTAL EXPENDITURES	<u>14,530,483</u>	<u>493,311</u>	<u>1,340,438</u>	<u>16,364,232</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>988,993</u>	<u>166,926</u>	<u>(113,329)</u>	<u>1,042,590</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	1,654	-	-	1,654
Proceeds from borrowing	-	-	-	-
Transfers in	-	-	212,511	212,511
Transfers out	(212,511)	-	-	(212,511)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(210,857)</u>	<u>-</u>	<u>212,511</u>	<u>1,654</u>
NET CHANGE IN FUND BALANCES	778,136	166,926	99,182	1,044,244
Fund Balance, July 1	2,243,454	868,976	49,147	3,161,577
FUND BALANCE, JUNE 30	<u>\$ 3,021,590</u>	<u>\$ 1,035,902</u>	<u>\$ 148,329</u>	<u>\$ 4,205,821</u>

The accompanying notes are an integral part of the financial statements.

Negaunee Public Schools

GOVERNMENTAL FUNDS

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

For the Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds \$ 1,044,244

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. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense	\$ (806,336)	
Capital outlays	598,740	
Net book value of disposed assets	<u>-</u>	(207,596)

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net position.

Proceeds from notes	-	
Proceeds from bond issuance	<u>-</u>	-

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 256,819

Change in proportionate share of net pension liability and net OPEB liability reported in the statement of activities does not require the use of current resources, and therefore, is not reported in the fund statements until it is due for payment.

Pension expense	(833,863)	
OPEB expense	<u>355,295</u>	(478,568)

Unamortized bond premiums are reported as other financing sources in the governmental funds when incurred. However, for governmental activities those sources are shown in the statement of net position and amortized over the life of the bond issuance as other sources in the statement of activities.

Amortization of bond premium - 2016 Refunding Bonds		41,724
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Deferred gain on refunding bonds is not recorded as revenue on governmental funds when incurred. However, for governmental activities it is shown in the statement of net position and amortized over the life of the bond.

Amortization of deferred gain on refunding - 2016 Refunding Bonds		39,333
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Interest on long-term debt is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount of accrued interest recognized in the Statement of Activities. 1,767

Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (20,179)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 677,544

The accompanying notes are an integral part of the financial statements.

Negaunee Public Schools

FIDUCIARY FUNDS

STATEMENT OF NET POSITION

June 30, 2018

	Agency Fund
	<u>Student Activity</u>
ASSETS	
Cash and cash equivalents	\$ 136,790
Investments	201,044
Due from other funds	<u>-</u>
TOTAL ASSETS	<u><u>\$ 337,834</u></u>
LIABILITIES	
Due to groups, organizations and activities	\$ 337,776
Accounts payable	14
Due to other funds	<u>44</u>
TOTAL LIABILITIES	<u><u>\$ 337,834</u></u>

The accompanying notes are an integral part of the financial statements.

NEGAUNEE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Negaunee Public Schools (the School District) conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the more significant policies:

REPORTING ENTITY

In evaluating how to define the School District, for financial reporting purposes, management has considered all potential component units by applying the criteria set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the School District and/or its constituents, or whether the activity is conducted within the geographic boundaries of the School District and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the School District is able to exercise oversight responsibilities.

BASIS OF PRESENTATION

District-Wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the School District as a whole. They include all funds of the School District except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through State sources, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. All of the School District's district-wide activities are considered to be governmental activities.

Fund Financial Statements:

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into two major categories: governmental and proprietary categories. An emphasis is placed on major funds

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

- a. Total assets/deferred outflows of resources, liabilities/deferred inflows of resources, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets/deferred outflows of resources, liabilities/deferred inflows of resources, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The School District reports the General Fund and the Sinking Fund as its major governmental fund in accordance with the above criteria. The funds of the School District are described below:

Governmental Funds

General Fund – General Fund is the main operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects), such as the School Lunch and Athletics Funds.

Debt Retirement Funds – The Debt Retirement Funds are used to account for the accumulation of resources such as taxes, state aid and interest revenue for the payment of general long-term debt principal, interest, and related costs.

Capital Projects Funds – Capital Projects Funds are used to record bond proceeds or other revenue to be used for the acquisition or construction of major capital facilities or other capital assets, including equipment.

Fiduciary Funds

Trust and Agency Fund – The Trust and Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, organizations, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the district-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resource measurement focus as defined in item (a) below. In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets, deferred outflows of resources, liabilities, and deferred inflows of resources are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.

Basis of Accounting

In the district-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

Cash and Cash Equivalents

The School District cash and cash equivalents as reported in the Statement of Net Position are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with maturities of three months or less. The fair value measurement of investments is based on the hierarchy established by generally accepted accounting principles, which has three levels based on the valuation inputs used to measure an asset’s fair value.

Investments

Investments are carried at market value.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due From and To Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Inventory

Inventories are stated at cost, on a first-in, first-out basis, which approximates market value. Inventory recorded in the General Fund consists of centrally warehoused teaching and operating supplies for the School District. The School Lunch Fund consists of food and paper goods. For other funds, expenditures are recorded at the time of use.

Deferred Outflows of Resources

In addition to assets, the statement of financial 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 future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has two items that qualify for reporting in this category:

On the district-wide financial statements, changes in assumptions, differences between expected and actual experience and changes in proportion and differences between employer contributions and proportionate share of contributions for the pension plan and/or other post-employment benefits other than pension (OPEB) create a deferred outflow of resources.

On the district-wide financial statements, the School District's contributions made into the pension plan and/or OPEB plan subsequent to the plan's fiscal year end creates a deferred outflow of resources.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Land improvements	15 – 20 years
Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 10 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Long-Term Debt

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using straight-line amortization.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. Premiums received on debt issuance are reported as other financing sources and bond discounts are reported as other financing uses.

Compensated Absences

The School District's policies regarding compensated absences permits employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the district-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

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

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

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and governmental funds balance sheet 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 School District has two items that qualify for reporting in this category:

On the district-wide financial statements, the net difference between projected and actual pension plan and/or OPEB plan investment earnings, differences between expected and actual experience, changes in assumptions and changes in proportion and differences

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

between employer contributions and proportionate share of contributions create a deferred inflow of resources.

On the district-wide financial statements, a deferred gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. For district-wide financial statement purposes the amount of the gain on refunding bonds is deferred and amortized over the shorter of the life of the refunded or refunding debt using straight line amortization.

Classification

District-Wide Statements

Equity is classified as net position and displayed in three components:

- a. Net Investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted Net Position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation. These amounts are derived from the fund financial statements by combining non-spendable and restricted fund balance classifications.
- c. Unrestricted Net Position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as non-spendable, restricted, committed, assigned, and unassigned.

Revenues

District-Wide Statements

In the district-wide Statement of Activities, revenues are segregated by activity (governmental or business-type) and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

Fund Statements

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the School District's policy to use the restricted resources first.

Property Taxes

Property taxes are levied on July 1, on behalf of the School District by various taxing units and are payable without penalty by September 14. The School District recognizes property tax revenue when levied to the extent they result in current receivables (collected within sixty days of the end of the fiscal year). Property taxes that are not collected within sixty days of the end of the fiscal year are recognized as revenue when collected. Various units of local government bill and collect the property taxes for the School District.

Expenses/Expenditures

District-Wide Statements

In the district-wide Statement of Activities, expenses are segregated by activity (governmental or business-type) and are classified by function.

Fund Statements

In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the district-wide statements. Exceptions to this rule are (1) activities between funds reported as government activities and funds reported as business-type activities; and (2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets between funds without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Position.

Budgets and Budgetary Accounting

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

- a. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is approved by the Board of Education.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- d. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board of Education.
- e. All annual appropriations lapse at fiscal yearend.

Use of Estimates

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

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through October 10, 2018, the date of the accompanying independent auditor’s report, which is the date the financial statements were available to be issued.

NOTE B – DEPOSITS AND INVESTMENTS:

Cash and Cash Equivalents

The following is a reconciliation of cash and investments for both the unrestricted and restricted assets for the primary government and fiduciary funds from the Statement of Net Position.

	Primary Government	Fiduciary Funds	Total
Cash and cash equivalents	\$666,983	\$136,790	\$803,773
Investments	2,331,175	201,044	2,532,219
Total	<u>\$2,998,158</u>	<u>\$337,834</u>	<u>\$3,335,992</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District’s deposits may not be returned to it. State law does not require and the School District does not have a deposit policy for custodial credit risk. The carrying amounts of the School District’s deposits with financial institutions were \$803,773 and the bank balance was \$945,496. The bank balance is categorized as follows:

Amount insured by the FDIC	\$250,012
Amount uncollateralized and uninsured	695,484
Total	<u>\$945,496</u>

NOTE B – DEPOSITS AND INVESTMENTS (Continued):

Investments

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2018, the School District had the following investments:

Investments	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
<i>Equity securities:</i>				
Michigan Liquid Asset Fund	\$2,532,219 *	\$-	\$2,532,219	\$-
Total	\$2,532,219	\$-	\$2,532,219	\$-

*Investment matures within one year

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the School District’s investments. The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes authorize the School District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers’ acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The School District has no investment policy that would further limit its investment choices and has no investments for which ratings are required. The School District’s investments are in accordance with statutory authority.

NOTE C – DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governmental units totaled \$2,571,310 and consisted of \$2,103,615 due from the State of Michigan for State Aid, \$37,756 due from the Michigan Department of Education for Grant Revenue, and \$429,939 due from other governmental units for the operation of special programs and grant projects.

NOTE D – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

The School District reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net position/balance sheet for governmental funds, and fiduciary funds. Interfund transactions resulting in interfund receivables and payables are as follows:

		DUE FROM			
		General Fund	Non-major Gov'tl Funds	Student Activities Funds	Total Due To Other Funds
DUE TO	General Fund	\$-	\$-	\$-	\$-
	Non-major Gov'tl Funds	8,000	-	-	8,000
	Student Activities Fund	-	44	-	44
	Total Due From Other Funds	<u>\$8,000</u>	<u>\$44</u>	<u>\$-</u>	<u>\$8,044</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. See table below.

		TRANSFERS OUT		
		General Fund	Sinking Fund	Total Transfers In
TRANSFERS IN	General Fund	\$-	\$-	\$-
	School Lunch Fund	4	-	4
	Athletic Fund	212,507	-	212,507
	Total Transfers Out	<u>\$212,511</u>	<u>\$-</u>	<u>\$212,511</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE E – CAPITAL ASSETS:

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

	Balance 6/30/2017	Additions	Deductions	Balance 6/30/2018
Capital assets not being depreciated:				
Land	\$92,536	\$-	\$-	\$92,536
Construction in progress	-	39,233	-	39,233
Capital assets being depreciated:				
Land improvements	1,138,345	60,208	-	1,198,553
Buildings and additions	20,248,637	319,259	-	20,567,896
Equipment and furniture	932,728	99,478	-	1,032,206
School buses	1,131,406	80,562	(52,956)	1,159,012
Total Capital Assets	<u>23,543,652</u>	<u>598,740</u>	<u>(52,956)</u>	<u>24,089,436</u>
Less accumulated depreciation:				
Land improvements	(326,106)	(71,806)	-	(397,912)
Buildings and additions	(9,170,787)	(554,611)	-	(9,725,398)
Equipment and furniture	(721,389)	(64,046)	-	(785,435)
School buses	(815,433)	(115,873)	52,956	(878,350)
Total Accumulated Depreciation	<u>(11,033,715)</u>	<u>(806,336)</u>	<u>52,956</u>	<u>(11,787,095)</u>
CAPITAL ASSETS, NET	<u>\$12,509,937</u>	<u>(\$207,596)</u>	<u>\$-</u>	<u>\$12,302,341</u>

Depreciation expense charged to governmental activities was \$806,336.

NOTE F – CONSTRUCTION IN PROGRESS:

During the fiscal year the School District began various projects that will be completed in the subsequent year. These projects included two projects at Lakeview Elementary School: catwalk upgrades in the gym and concession project. The School District also began repairs on the bus garage for the area that was damaged when a bus hit the garage.

The costs incurred during the fiscal year related to the projects are as follows: catwalk upgrade \$8,027, concession project \$20,640, and bus garage \$10,566. As of June 30, 2018, the catwalk upgrade was approximately 60% completed, the concession project was approximately 92% completed and the bus garage project was approximately 60% completed.

NOTE G – ACCRUED LIABILITIES:

A summary of accrued liabilities at June 30, 2018 as follows:

	Governmental Activities
Accrued wages	\$292,623
Accrued fringes	96,399
Other accrued expenses	319,540
Total	<u>\$708,562</u>

NOTE H – SHORT TERM DEBT:

The School District utilizes short-term borrowing secured with pledged state aid for cash flow purposes due to the timing of state aid payments. A summary of changes in short-term debt for the year ended June 30, 2018 is as follows:

	Balance 6/30/2017	Additions	Deductions	Balance 6/30/2018
State Anticipation Note:	,			
2016-2017	\$650,000	\$-	\$650,000	\$-
2017-2018	-	\$500,000	-	500,000
Total	<u>\$650,000</u>	<u>\$500,000</u>	<u>\$650,000</u>	<u>\$500,000</u>

NOTE I – LONG-TERM DEBT:

The following is a summary of the long-term debt activity for the year ending June 30, 2018:

	Balance 6/30/2017	Additions	Deductions	Balance 6/30/2018	Due in One year
Governmental Activities:					
Bonds Payable:					
2008 General Obligation	\$140,000	\$-	(\$140,000)	\$-	\$-
2016 Refunding Bond	4,365,000	-	(105,000)	4,260,000	265,000
Plus: deferred premium	542,412	-	(41,724)	500,688	-
Subtotal Bonds	<u>5,047,412</u>	<u>-</u>	<u>(286,724)</u>	<u>4,760,688</u>	<u>265,000</u>
Notes Payable:					
2016 School Bus	48,357	-	(11,819)	36,538	11,997
Subtotal Notes	<u>48,357</u>	<u>-</u>	<u>(11,819)</u>	<u>36,538</u>	<u>11,997</u>
Subtotal Bonds & Notes	<u>5,095,769</u>	<u>-</u>	<u>(298,543)</u>	<u>4,797,226</u>	<u>276,997</u>
Employee Benefit Obligations:					
Accrued sick & vacation	220,342	16,358	(13,378)	223,322	-
Terminal leave	45,069	17,199	-	62,268	-
Subtotal	<u>265,411</u>	<u>33,557</u>	<u>(13,378)</u>	<u>285,590</u>	<u>-</u>
TOTAL	<u>\$5,361,180</u>	<u>\$33,557</u>	<u>(\$311,921)</u>	<u>\$5,082,816</u>	<u>\$276,997</u>

Long-term debt at June 30, 2018 consists of the following:

**2016 Refunding Bond
June 30, 2018**

Fiscal Year	November 1	May 1		Total
	Interest	Interest	Principal	
2019	\$85,200	\$85,200	\$265,000	\$435,400
2020	79,900	79,900	210,000	369,800
2021	75,700	75,700	230,000	381,400
2022	71,100	71,100	245,000	387,200
2023	66,200	66,200	270,000	402,400
2024-2028	241,100	241,100	1,625,000	2,107,200
2029-2033	78,200	78,200	1,280,000	1,436,400
2034-2038	2,700	2,700	135,000	140,400
Total	<u>\$700,100</u>	<u>\$700,100</u>	<u>\$4,260,000</u>	<u>\$5,660,200</u>

NOTE I – LONG-TERM DEBT (Continued):

On April 19, 2016, the School District issued \$4,450,000 in Refunding Bond with an interest rate of 4% to advance refund \$2,675,000 of outstanding 2006 General Obligation Bond with an interest rate of 4.0% to 4.2% per annum and refund \$2,630,000 of outstanding 2008 General Obligation Bond with an interest rate of 3.5% to 5.0% per annum.

The net proceeds of \$5,055,593 (after payment of \$88,267 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited into irrevocable trust with an escrow agent to provide for all future debt service payments on the 2006 and 2008 General Obligation Bonds. As a result, the 2006 and 2008 General Obligation Bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net position.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$590,000. This difference, reported in the accompanying financial statements as an unamortized premium on bonds, is being charged to operations through the year 2031 using the effective-interest method. The School District completed the advance refunding to reduce its total debt service payments over the next 15 years by \$696,489 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$577,357.

The irrevocable trust accounts for the assets and the liability for the defeased 2006 and 2008 General Obligation Bonds are not included in the School District's financial statements. The portion of the 2006 and 2008 General Obligation Bonds considered defeased at June 30, 2018 is \$2,350,000 and \$2,260,000, respectively.

**2016 School Bus Notes Payable
June 30, 2018**

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2019	\$552	\$11,997	\$12,549
2020	371	12,179	12,550
2021	187	12,362	12,549
Total	<u>\$1,110</u>	<u>\$36,538</u>	<u>\$37,648</u>

Notes payable originally issued for \$60,000 for the purchase of a school bus and dated September 1, 2016 mature annually as scheduled above on September 15, 2019 through September 15, 2020 bearing an interest rate of 1.5% per annum.

As of June 30, 2018, the aggregate maturities of long-term debt are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$276,997	\$170,952	\$447,949
2020	222,179	160,171	382,350
2021	242,362	151,587	393,949
2022	245,000	142,200	387,200
2023	270,000	132,400	402,400
2024-2028	1,625,000	482,200	2,107,200
2029-2033	1,280,000	156,400	1,436,400
2034-2038	135,000	5,400	140,400
Total	<u>\$4,296,538</u>	<u>\$1,401,310</u>	<u>\$5,697,848</u>

NOTE J – EMPLOYEE BENEFIT OBLIGATIONS:

Terminal Leave

The School District offers terminal leave benefits for teachers having ten years of service. This payment is based upon the teacher's base salary at retirement and the number of years of service beyond ten years.

Compensated Absences

There is also an unused sick leave incentive plan provided to teachers eligible to retire under the Michigan Teacher Retirement Act. This payment is based upon the accumulated sick days at a rate of \$20 for each day accumulated prior to September 1, 1981 and \$50 for each day accumulated after September 1, 1981. The sick leave liability has been calculated in accordance with Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*.

Accrued vacation represents vacation time that has been earned but not taken. This vacation time must be used by the union employees within three months after their next anniversary date, or it will be forfeited. For administrative/supervisory employees this vacation time is paid out at their next anniversary date.

As of June 30, 2018, accrued employee benefit obligations reported in the Statement of Net Position consist of the following:

Terminal Leave	\$62,268
Sick Leave	198,637
Vacation	24,685
Total	<u>\$285,590</u>

NOTE K – FUND BALANCES – GOVERNMENTAL FUNDS:

Fund balances of the governmental funds are classified as follows:

Non-spendable — amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed — amounts that can be used only for specific purposes determined by a formal action of the Board of Education. The Board of Education is the highest level of decision-making authority for the School District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board of Education.

Assigned — amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the School District's adopted policy, only the Board of Education may assign amounts for specific purposes.

Unassigned — all other spendable amounts.

NOTE K – FUND BALANCES – GOVERNMENTAL FUNDS (Continued):

As of June 30, 2018, fund balances are composed of the following:

	General Fund	Sinking Fund	Non-major Gov't'l Funds	Total Governmental Funds
Non-spendable:				
Inventories	\$-	\$-	\$5,077	\$5,077
Prepays	200,169	-	-	200,169
Restricted:				
Debt service	-	-	133,030	133,030
Construction projects	-	1,035,902	4,536	1,040,438
Committed:	-	-	-	-
Assigned:				
School lunch activities	-	-	5,686	5,686
Budgeted shortfall	131,161	-	-	131,161
Unassigned	2,690,260	-	-	2,690,260
Total Fund Balances	<u>\$3,021,590</u>	<u>\$1,035,902</u>	<u>\$148,329</u>	<u>\$4,205,821</u>

The Board of Education establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the Board of Education through amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Education has provided otherwise in its commitment or assignment actions.

NOTE L – CAPITAL PROJECT FUNDS:

The Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, authorized prior to March 16, 2017, the School District has complied with the applicable provisions of §1212 of the Revised School Code.

Sinking Fund millages authorized on or after March 16, 2017 have the additional benefit of being utilized to offset various technology and school security improvements. The Technology Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage that was authorized after March 16, 2017. For this fund, the School District has complied with the applicable provisions of §1212 of the Revised School Code.

NOTE M – ECONOMIC DEPENDENCY:

The School District receives approximately 73% of its revenues through State and Federal sources to be used for providing elementary and secondary education to the students of The School District.

NOTE N – FOUNDATION REVENUE AND CONTINGENCY RECEIVABLE AND PAYABLE:

For the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. In previous years, the state utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenue 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 year ended June 30, 2018, the foundation allowance was based on the average of pupil membership counts taken in February 2017 and October of 2017.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills.

The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2017 – August 2018.

NOTE O – NON-MONETARY TRANSACTIONS:

The School District receives USDA donated food commodities for use in its food service program which are accounted for in the School Lunch Fund. The commodities are accounted for on the modified accrual basis and the related revenues and expenditures are recognized as commodities as utilized. The School District recognized \$36,611 during fiscal year 2017-18 in revenues and expenditures for USDA commodities.

NOTE P – PROPERTY TAXES:

The taxable value of real and personal property located in the School District for the 2017 tax year which represents approximately 50% of the estimated current value, totaled \$262,813,210 (consisting of \$161,878,519 for Homestead, \$91,895,467 for Non-Homestead, \$8,698,824 for Commercial Personal Property, and \$340,400 for Industrial Personal Property). The tax levy for the year was based on a rate of 18.0000 mills on the non-homestead property and 6.0000 mills on the commercial personal property (one mill is equal to \$1.00 per \$1,000 of taxable value). Total tax levied consists of 18.0000 mills for the General Fund, 1.6500 for debt retirement, and 1.9812 for the Capital Projects Sinking Fund.

NOTE Q – CONTINGENT LIABILITIES:

Grant Assistance

The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The School District joined together with other units and created a public

NOTE Q – CONTINGENT LIABILITIES (Continued):

entity risk pool currently operating as a common risk management and insurance program. The School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$75,000 for each insured event.

The School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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

NOTE R – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN:

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 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 for 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 member 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

NOTE R – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Contributions and Funded Status

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, 2017 valuation will be amortized over a 22-year period for the 2017 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year 2017.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0-4.0%	19.03%
Member Investment Plan	3.0-7.0%	19.03%
Pension Plus	3.0-6.4%	18.40%
Defined Contribution	0.0%	15.27%

Required contributions to the pension plan from the School District were \$2,240,278 for the year ended September 30, 2017.

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

At June 30, 2018, the School District reported a liability of \$24,751,375 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was 0.09551260 percent, which was an increase of 0.0061202 percent from its proportion measured as of September 30, 2016.

For the year ended June 30, 2018, the School District recognized pension expense of \$2,863,783. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE R – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between actual and expected experience	\$215,106	(\$121,450)
Changes of assumptions	2,711,710	-
Net difference between projected and actual earnings on pension plan investments	-	(1,183,279)
Changes in proportion and differences between the employer contributions and proportionate share of contributions	786,576	(48,978)
Subtotal	<u>3,713,392</u>	<u>(1,353,707)</u>
Employer contributions subsequent to the measurement date	2,223,081	-
Total	<u>\$5,936,473</u>	<u>(\$1,353,707)</u>

Contributions subsequent to the measurement date totaling \$2,223,081 reported as deferred outflows of resources related to pensions will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. 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 (Inflows) and Deferred Outflows of Resources by Year (to Be Recognized in Future Pension Expenses)	
Year Ended September 30	Amount
2018	\$749,300
2019	1,134,781
2020	511,170
2021	(35,566)
Total	<u>\$2,359,685</u>

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:

NOTE R – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2016
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid)	7.5%
- Pension Plus Plans (Hybrid)	7.0%
Projected Salary Increases	3.5 – 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members

Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, 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: 4.5188
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2017 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, 2017, are summarized in the following table:

NOTE R – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.6%
% Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	2.0	(0.9)
Total	100%	

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

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 13.24%. 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 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid 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 7.5% (7.0% for the Pension Plus 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 School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of the net pension liability calculated using a discount rate of 7.5% (7.0% for the Hybrid Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

1% Decrease (Non-Hybrid/Hybrid)	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)	1% Increase (Non-Hybrid/Hybrid)
6.5% / 6.0%	7.5% / 7.0%	8.5% / 8.0%
\$32,242,809	\$24,751,375	\$18,444,065

NOTE R – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

Michigan Public School Employees' Retirement System (MPERS) Fiduciary Net Position

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

Payables to the Michigan Public Schools Employees' Retirement System (MPERS)

At June 30, 2018, the School District reported a payable of \$266,569 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

NOTE S – EMPLOYEE RETIREMENT SYSTEM – DEFINED CONTRIBUTION PLANS:

Employees of the School District who began working for a Michigan public school July 1, 2010, or later, are members of the Pension Plus plan or Defined Contribution (DC) plan, defined contribution pension plans. Under Public Act 300 of 2012, eligible members of MPERS had the option to increase, maintain, or stop their contributions to the pension fund as of the transition date. Members of MPERS who elected to stop their contributions became participants in the DC plan as of their transition date.

Pension Plus Plan

The Pension Plus Plan is administered by Voya Financial. Benefit terms, including employer contribution requirements are established and may be amended by MPERS. Within the plan employees have three options to choose from: 1) Pension Plus with Premium Subsidy, 2) Pension plus to DC with PHF, and 3) Basic/MIP to DC with Premium Subsidy. The School District's required to contribute ranges 1% to 4% of annual salary for plan members based on the type of plan the employee is participating in. Employees are permitted to make contributions up to applicable Internal Revenue Service Code limits. Employees are considered 100% vested for their own contributions; for employer contributions employees are considered 100% vested after four years of service. Employees are eligible to receive benefits from the Plan in accordance with IRS regulations for 401(k) plans.

Defined Contribution Plan

The Defined Contribution Plan is a defined contribution plan under sections 401(k) and section 457 of the Internal Revenue Code and is administered by Voya Financial. Benefit terms, including employer contribution requirements are established and may be amended by MPERS. Employee contributions are 8% of wages with the employer matching contributions dollar for dollar on the first 2% of wages and 50 cents on the dollar on the next 6% of wages. Employee contributions are made into the 457 Plan while employer matching contributions are made in other 401(k) Plan. Employees are considered 100% vested for their own contributions; for employer contributions employees are considered 100% vested after four years of service. Employees are eligible to receive benefits and make contributions to the Plan in accordance with IRS regulations for 401(k) and 457 plans.

Contributions

The total amount contributed to the Plan for the year ended June 30, 2018 was \$90,736 which consisted of \$22,651 from the School District and \$68,085 from employees.

NOTE T – EMPLOYEE RETIREMENT SYSTEM – POST-EMPLOYMENT BENEFITS:

General Information about the Michigan Public School Employees' Retirement System (MPERS) OPEB Plan

The MPERS Plan includes an Other Post Employment Benefits component as part of the cost of the Plan. All information related to the OPEB component of the Plan is the same except as noted below:

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 and Funded Status

The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2017 fiscal year.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2017.

**NOTE T – EMPLOYEE RETIREMENT SYSTEM – POST-EMPLOYMENT BENEFITS
(Continued):**

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.00%	5.91%
Personal Healthcare Fund (PHF)	0.00%	5.69%

Required contributions to the OPEB plan from the School District were \$742,340 for the year ended September 30, 2017.

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

At June 30, 2018, the School District reported a liability of \$8,443,700 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The School 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, 2017, the School District's proportion was 0.0009535009 percent, which was an increase of 0.00 percent from its proportion measured as of September 30, 2016.

For the year ended June 30, 2018, the School District recognized OPEB expense of \$565,473. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between actual and expected experience	\$-	(\$89,901)
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	(195,558)
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,105	-
Subtotal	<u>3,105</u>	<u>(285,459)</u>
Employer contributions subsequent to the measurement date	451,398	-
Total	<u>\$454,503</u>	<u>(\$285,459)</u>

Contributions subsequent to the measurement date totaling \$451,398 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

**NOTE T – EMPLOYEE RETIREMENT SYSTEM – POST-EMPLOYMENT BENEFITS
(Continued):**

Deferred (Inflows) and Deferred Outflows of Resources by Year (to Be Recognized in Future OPEB Expenses)	
Year Ended September 30	Amount
2018	(\$68,288)
2019	(68,288)
2020	(68,288)
2021	(68,288)
2022	(9,202)
Total	<u>(\$282,354)</u>

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, 2015
Healthcare Cost Trend Rate:	7.5% Year 1 graded to 3.5% Year 12
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:

- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.4744

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 11.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**NOTE T – EMPLOYEE RETIREMENT SYSTEM – POST-EMPLOYMENT BENEFITS
(Continued):**

Discount Rate

A discount rate of 7.5% 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 7.5%. 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 School District’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the School District’s proportionate share of the net OPEB liability calculated using a discount rate of 7.5%, as well as what the School District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
\$9,890,013	\$8,443,700	\$7,216,233

Sensitivity of the School District’s Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

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

1% Decrease 6.5%	Current Healthcare Cost Trend Rate 7.5%	1% Increase 8.5%
\$7,150,679	\$8,443,700	\$9,911,835

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued 2017 MPERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan

At June 30, 2018, the School District reported a payable of \$0 for the outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2018.

NOTE U – SINGLE AUDIT:

The School District’s audited financial statements reported \$473,710 in federal expenditures. As the total amount is less than the single audit threshold of \$750,000, the School District is not required to have an audit in accordance with the Uniform Guidance for the fiscal year ended June 30, 2018.

NOTE V – INSURANCE RECOVERIES:

During the fiscal year ended June 30, 2018 the School District received \$69,466 in insurance recoveries related to wind storm damage at Lakeview Elementary School. The initial loss occurred on April 10, 2017; however, repairs related to the damage were not completed until the current fiscal year.

NOTE W – TAX ABATEMENTS:

For financial reporting purposes, GASB Statement No. 77, *Tax Abatement Disclosures*, defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. The Statement requires disclosure of tax abatement information about a reporting government’s own tax abatement agreements and about tax abatement agreements entered into by other governments that reduce the reporting government’s tax revenues.

The School District receives reduced property tax revenues as a result of Industrial Facilities Tax (IFT) exemptions and/or Brownfields granted by the townships, cities, and/or counties within the district. These tax exemptions are intended to promote economic development and/or growth within the issuing government’s jurisdiction. Operating revenues not paid to the School District because of tax abatement agreements are reimbursed to the School District by the State of Michigan through the per-pupil foundation allowance.

Information relevant to tax abatements within the School District for the year ended June 30, 2018 is as follows:

Issuing Government	Type of Tax Abatement Agreement	Tax Abated	Gross Amount Abated in Fiscal Year
Negaunee Township	IFT	Prop. Tax	\$7,876
Marquette County	Brownfield	Prop. Tax	22,103
			\$29,979

For the fiscal year ended June 30, 2018, there were no significant tax abatements made by the School District.

NOTE X – NEW GASB STANDARDS:

Recently Issued and Adopted Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 provides improved accounting and financial reporting by state and local governments for postemployment benefits other than

NOTE X – NEW GASB STANDARDS (Continued):

pension. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. This statement is effective for periods beginning after June 15, 2017. The adoption of GASB No. 75 required the School District to record a prior period adjustment for the District's portion the OPEB liability and contributions subsequent to measurement date at the beginning of the year as detailed in the notes of the financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. GASB 85 provides guidance on a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Some of the items specifically addressed relate to the following: 1) Measuring certain money market investments and participating interest-earning investment contracts at amortized cost 2) Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus 3) Recognizing on-behalf payments for pension or OPEB in employer financial statements 4) Presenting payment-related measures in required supplementary information for purposes or reporting by OPEB plans and employers that provide OPEB 5) Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plan. This statement is effective for periods beginning after June 15, 2017. The adoption of GASB No. 72 does not have any impact on the School District's financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. GASB 86 provides improved consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This statement is effective for periods beginning after June 15, 2017. The School District does not have any debt extinguishment issues that meet the criteria for GASB 86; therefore, GASB 86 is not applicable to the School District.

Other Recently Issued Accounting Pronouncements

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. GASB 81 provides recognition and measurement guidance when a government is the beneficiary of an irrevocable split-interest agreement. The additional criteria requires governments that receive irrevocable split-interest agreement resources to recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The government is also required to recognize revenue when resources become applicable to the reporting period. This statement is effective for periods beginning after December 15, 2016. The School District does not have any irrevocable split-interest agreements that meet the criteria for GASB 81; therefore, GASB 81 is not applicable to the School District.

NOTE Y – UPCOMING STANDARDS:

The following pronouncements of the Governmental Accounting Standards Board (GASB) that have been released recently and may be applicable to the School District in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the District.

GASB 83: Certain Asset Retirement Obligations

Effective for fiscal years beginning after June 15, 2018 (School District's fiscal year 2019)

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. It requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. A deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This current value of a government's AROs are required to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays.

The statement also gives guidance on situations in which a government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. The government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

GASB 84: Fiduciary Activities

Effective for fiscal years beginning after December 15, 2018 (School District's fiscal year 2020)

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of 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.

NOTE Y – UPCOMING STANDARDS (Continued):

Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The Statement identifies four types of fiduciary funds that should be reported, as applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

GASB 87: Leases

Effective for fiscal years beginning after December 15, 2019 (School District's fiscal year 2021)

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 on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financing of the right to use an underlying asset. 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 88: Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

Effective for fiscal years beginning after June 15, 2018 (School District's fiscal year 2019)

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

GASB 89: Accounting for Interest Cost Incurred Before the End of a Construction Period

Effective for fiscal years beginning after December 15, 2019 (School District's fiscal year 2021)

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that was previously accounted for in accordance with the requirements of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,

NOTE Y – UPCOMING STANDARDS (Continued):

which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statement prepared using the economic resources measurement focus.

NOTE Z – NET POSITION RESTATEMENT:

The following net position restatement were made resulting from the adoption of GASB No. 75. The adjustment records the beginning proportionate share of net OPEB liability and related deferred outflows of resources as listed below.

	<u>Governmental Activities</u>
Net position, beginning of year	(\$9,605,660)
Prior period adjustments:	
Proportionate share of net OPEB liability	(8,906,232)
District's contributions made subsequent to OPEB measurement date	<u>276,281</u>
Net position, beginning of year, as restated	<u>(\$8,629,951)</u>

**REQUIRED SUPPLEMENTAL
INFORMATION**

Negaunee Public Schools

SCHEDULE OF THE NEGAUNEE PUBLIC SCHOOLS' PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN

For the Plan Year Ended September 30

	2017	2016	2015	2014
Negaunee Public Schools' proportion of net pension liability	0.09551%	0.09490%	0.09134%	0.08911%
Negaunee Public Schools' proportionate share of net pension liability	\$ 24,751,375	\$ 23,676,918	\$ 22,310,039	\$ 19,628,059
Negaunee Public Schools' covered-employee payroll	\$ 7,945,131	\$ 8,141,860	\$ 7,697,955	\$ 7,607,911
Negaunee Public Schools' proportionate share of net pension liability as a percentage of covered-employee payroll	311.53%	290.80%	289.82%	258.00%
Plan fiduciary net position as a percentage of total pension liability	64.21%	63.27%	63.17%	66.20%
Notes to Required Supplementary Information:				
Changes in benefit terms:	<i>NONE</i>	<i>NONE</i>	<i>NONE</i>	<i>NONE</i>
Changes in assumptions:	<i>NONE</i>	<i>NONE</i>	<i>NONE</i>	<i>NONE</i>

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available.

Negaunee Public Schools

SCHEDULE OF THE NEGAUNEE PUBLIC SCHOOLS' PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN

For the Fiscal Year Ended June 30

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>						
Statutorily required contributions	\$ 2,345,642	\$ 2,705,021	\$ 2,585,866	\$ 2,651,704						
Contributions in relation to statutorily required contributions	<u>2,345,642</u>	<u>2,705,021</u>	<u>2,585,866</u>	<u>2,651,704</u>						
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>						
Negaunee Public Schools' covered-employee payroll	\$ 7,778,222	\$ 7,903,673	\$ 6,741,512	\$ 7,897,227						
Pension contributions as a percentage of covered-employee payroll	30%	34%	38%	34%						

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available.

Negaunee Public Schools

SCHEDULE OF THE NEGAUNEE PUBLIC SCHOOLS' PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN

For the Plan Year Ended September 30

	2017
Negaunee Public Schools' proportion of net OPEB liability	0.09535%
Negaunee Public Schools' proportionate share of net OPEB liability	\$ 8,443,700
Negaunee Public Schools' covered-employee payroll	\$ 7,945,131
Negaunee Public Schools' proportionate share of net OPEB liability as a percentage of covered-employee payroll	106.28%
Plan fiduciary net position as a percentage of total OPEB liability	36.39%
 Notes to Required Supplementary Information:	
Changes in benefit terms:	NONE
Changes in assumptions:	NONE

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available.

Negaunee Public Schools

**SCHEDULE OF THE NEGAUNEE PUBLIC SCHOOLS' OPEB CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN**

For the Fiscal Year Ended June 30

	<u>2018</u>									
Statutorily required contributions	\$ 586,493									
Contributions in relation to statutorily required contributions	<u>586,493</u>									
Contributions deficiency (excess)	<u>\$ -</u>									
Negaunee Public Schools' covered-employee payroll	\$ 7,945,131									
OPEB contributions as a percentage of covered-employee payroll	7%									

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available.

Negaunee Public Schools
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Local sources	\$ 2,801,946	\$ 2,824,979	\$ 3,009,379	\$ 23,033	\$ 184,400
State sources	11,368,313	12,312,844	12,281,265	944,531	(31,579)
Federal sources	119,783	187,635	228,832	67,852	41,197
TOTAL REVENUES	14,290,042	15,325,458	15,519,476	1,035,416	194,018
EXPENDITURES:					
Instruction:					
Basic programs	7,142,910	7,221,106	7,149,500	(78,196)	71,606
Added needs	2,835,883	2,912,138	2,704,221	(76,255)	207,917
Adult education	-	67,155	67,200	(67,155)	(45)
Total Instruction	9,978,793	10,200,399	9,920,921	(221,606)	279,478
Supporting Services:					
Pupil services	718,708	728,031	714,368	(9,323)	13,663
Instructional staff	289,800	284,908	274,454	4,892	10,454
General administration	272,045	274,510	272,075	(2,465)	2,435
School administration	872,241	922,428	911,212	(50,187)	11,216
Business services	329,640	339,240	308,910	(9,600)	30,330
Operations and maintenance	1,054,541	1,145,310	1,080,545	(90,769)	64,765
Pupil transportation	831,861	847,152	826,416	(15,291)	20,736
Central support	153,680	157,396	157,067	(3,716)	329
Total Supporting Services	4,522,516	4,698,975	4,545,047	(176,459)	153,928
Community Services:					
Community activities	100	100	100	-	-
Total Community Services	100	100	100	-	-
Payments to Other Governments:					
Payment to other governments	-	-	51,866	-	(51,866)
Total Payments to Other Governments	-	-	51,866	-	(51,866)
Debt Service:					
Principal	11,820	11,820	11,819	-	1
Interest	730	730	730	-	-
Total Debt Service	12,550	12,550	12,549	-	1
Facilities Acquisition:					
Capital outlay	-	-	-	-	-
Total Facilities Acquisition	-	-	-	-	-
TOTAL EXPENDITURES	14,513,959	14,912,024	14,530,483	(398,065)	381,541
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(223,917)	413,434	988,993	637,351	575,559
OTHER FINANCING SOURCES (USES):					
Sale of capital assets	5,395	1,654	1,654	(3,741)	-
Proceeds from borrowing	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers (out)	(211,784)	(221,459)	(212,511)	(9,675)	8,948
TOTAL OTHER FINANCING SOURCES (USES)	(206,389)	(219,805)	(210,857)	(13,416)	8,948
NET CHANGE IN FUND BALANCE	(430,306)	193,629	778,136	623,935	584,507
Fund Balance, July 1	2,243,454	2,243,454	2,243,454	-	-
FUND BALANCE, JUNE 30	\$ 1,813,148	\$ 2,437,083	\$ 3,021,590	\$ 623,935	\$ 584,507

**OTHER SUPPLEMENTAL
INFORMATION**

Negaunee Public Schools

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2018

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
ASSETS				
Cash and cash equivalents	\$ 39,403	\$ 516	\$ 12,536	\$ 52,455
Investments	8,222	132,514	-	140,736
Accounts receivable	-	-	-	-
Due from other governmental units	15,691	-	-	15,691
Due from other funds	44	-	-	44
Inventories	5,077	-	-	5,077
Prepaid expenses	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	68,437	133,030	12,536	214,003
DEFERRED OUTFLOWS OF RESOURCES	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 68,437	\$ 133,030	\$ 12,536	\$ 214,003
	<hr/>	<hr/>	<hr/>	<hr/>
LIABILITIES				
Accounts payable	\$ 15,566	\$ -	\$ -	\$ 15,566
Accrued liabilities	-	-	-	-
Due to other governmental units	459	-	-	459
Due to other funds	-	-	8,000	8,000
Unearned grant revenue	41,649	-	-	41,649
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	57,674	-	8,000	65,674
DEFERRED INFLOWS OF RESOURCES	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-
FUND BALANCES				
Non-spendable	5,077	-	-	5,077
Restricted	-	133,030	4,536	137,566
Committed	-	-	-	-
Assigned	5,686	-	-	5,686
Unassigned	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL FUND BALANCES	10,763	133,030	4,536	148,329
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 68,437	\$ 133,030	\$ 12,536	\$ 214,003
	<hr/>	<hr/>	<hr/>	<hr/>

Negaunee Public Schools

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2018

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
REVENUES:				
Local sources	\$ 444,962	\$ 520,295	\$ 10,000	\$ 975,257
State sources	6,974	-	-	6,974
Federal sources	244,878	-	-	244,878
TOTAL REVENUES	<u>696,814</u>	<u>520,295</u>	<u>10,000</u>	<u>1,227,109</u>
EXPENDITURES:				
Supporting services	64,058	3	-	64,061
Debt service	-	425,763	-	425,763
Facilities acquisition	-	-	5,464	5,464
School lunch activities	448,159	-	-	448,159
Athletic activities	396,991	-	-	396,991
TOTAL EXPENDITURES	<u>909,208</u>	<u>425,766</u>	<u>5,464</u>	<u>1,340,438</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(212,394)</u>	<u>94,529</u>	<u>4,536</u>	<u>(113,329)</u>
OTHER FINANCING SOURCES (USES):				
Bond proceeds	-	-	-	-
Payments for premium and discount	-	-	-	-
Payments to bond escrow agent	-	-	-	-
Transfers in	212,511	-	-	212,511
Transfers (out)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>212,511</u>	<u>-</u>	<u>-</u>	<u>212,511</u>
NET CHANGE IN FUND BALANCE	117	94,529	4,536	99,182
Fund Balance, July 1	10,646	38,501	-	49,147
FUND BALANCE, JUNE 30	<u>\$ 10,763</u>	<u>\$ 133,030</u>	<u>\$ 4,536</u>	<u>\$ 148,329</u>

Negaunee Public Schools

NON-MAJOR SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

June 30, 2018

	<u>School Lunch Fund</u>	<u>Athletic Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 11,210	\$ 28,193	\$ 39,403
Investments	-	8,222	8,222
Accounts receivable	-	-	-
Due from other governmental units	15,691	-	15,691
Due from other funds	-	44	44
Inventories	5,077	-	5,077
Prepaid expenses	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	31,978	36,459	68,437
	<hr/>	<hr/>	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 31,978	\$ 36,459	\$ 68,437
	<hr/>	<hr/>	<hr/>
LIABILITIES			
Accounts payable	\$ 15,566	\$ -	\$ 15,566
Accrued liabilities	-	-	-
Due to other governmental units	-	459	459
Due to other funds	-	-	-
Unearned grant revenue	5,649	36,000	41,649
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	21,215	36,459	57,674
	<hr/>	<hr/>	<hr/>
DEFERRED INFLOWS OF RESOURCES	-	-	-
	<hr/>	<hr/>	<hr/>
FUND BALANCES			
Non-spendable	5,077	-	5,077
Restricted	-	-	-
Committed	-	-	-
Assigned	5,686	-	5,686
Unassigned	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL FUND BALANCES	10,763	-	10,763
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 31,978	\$ 36,459	\$ 68,437
	<hr/>	<hr/>	<hr/>

Negaunee Public Schools

NON-MAJOR SPECIAL REVENUE FUNDS

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2018

	<u>School Lunch Fund</u>	<u>Athletic Fund</u>	<u>Total</u>
REVENUES:			
Local Sources:			
School lunch activities	\$ 196,420	\$ -	\$ 196,420
Athletic activities	-	248,542	248,542
State sources	6,974	-	6,974
Federal sources	244,878	-	244,878
	<u>448,272</u>	<u>248,542</u>	<u>696,814</u>
TOTAL REVENUES			
EXPENDITURES:			
Support services	-	64,058	64,058
School lunch activities	448,159	-	448,159
Athletic activities	-	396,991	396,991
	<u>448,159</u>	<u>461,049</u>	<u>909,208</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>113</u>	<u>(212,507)</u>	<u>(212,394)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	4	212,507	212,511
Transfers (out)	-	-	-
	<u>4</u>	<u>212,507</u>	<u>212,511</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCE	117	-	117
Fund Balance, July 1	<u>10,646</u>	<u>-</u>	<u>10,646</u>
FUND BALANCE, JUNE 30	<u><u>\$ 10,763</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 10,763</u></u>

Negaunee Public Schools

NON-MAJOR SPECIAL REVENUE FUND

SCHOOL LUNCH FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

For the Year Ended June 30, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Local Sources:			
Student meals	\$ 155,730	\$ 163,484	\$ 7,754
Ala carte sales	25,000	28,313	3,313
Other food receipts	<u>4,710</u>	<u>4,623</u>	<u>(87)</u>
Total Local Sources	<u>185,440</u>	<u>196,420</u>	<u>10,980</u>
State Sources:			
State aid - restricted	<u>6,950</u>	<u>6,974</u>	<u>24</u>
Total State Sources	<u>6,950</u>	<u>6,974</u>	<u>24</u>
Federal Sources:			
Entitlement payments	198,000	208,267	10,267
Donated commodities	<u>-</u>	<u>36,611</u>	<u>36,611</u>
Total Federal Sources	<u>198,000</u>	<u>244,878</u>	<u>46,878</u>
TOTAL REVENUES	<u>390,390</u>	<u>448,272</u>	<u>57,882</u>
EXPENDITURES:			
Support services	-	-	-
School lunch activities	<u>407,195</u>	<u>448,159</u>	<u>(40,964)</u>
TOTAL EXPENDITURES	<u>407,195</u>	<u>448,159</u>	<u>(40,964)</u>
EXCESS REVENUES (EXPENDITURES)	<u>(16,805)</u>	<u>113</u>	<u>16,918</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	<u>6,159</u>	<u>4</u>	<u>(6,155)</u>
NET CHANGE IN FUND BALANCE	<u>(10,646)</u>	<u>117</u>	<u>10,763</u>
Fund Balance, July 1	<u>10,646</u>	<u>10,646</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ -</u></u>	<u><u>\$ 10,763</u></u>	<u><u>\$ 10,763</u></u>

Negaunee Public Schools

NON-MAJOR SPECIAL REVENUE FUND

ATHLETIC FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

For the Year Ended June 30, 2018

	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Local sources	\$ 243,064	\$ 248,542	\$ 5,478
TOTAL REVENUES	<u>243,064</u>	<u>248,542</u>	<u>5,478</u>
EXPENDITURES:			
Support services	63,851	64,058	(207)
Athletic activities	394,513	396,991	(2,478)
TOTAL EXPENDITURES	<u>458,364</u>	<u>461,049</u>	<u>(2,685)</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>(215,300)</u>	<u>(212,507)</u>	<u>2,793</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	215,300	212,507	(2,793)
NET CHANGE IN FUND BALANCE	-	-	-
Fund Balance, July 1	-	-	-
FUND BALANCE, JUNE 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Negaunee Public Schools

NON-MAJOR DEBT SERVICE FUNDS

COMBINING BALANCE SHEET

June 30, 2018

	2006 Debt Retirement Fund	2008 Debt Retirement Fund	Total Non-major Debt Service Funds
ASSETS			
Cash and cash equivalents	\$ 511	\$ 5	\$ 516
Investments	130,314	2,200	132,514
Due from other governmental units	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>130,825</u>	<u>2,205</u>	<u>133,030</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 130,825</u>	<u>\$ 2,205</u>	<u>\$ 133,030</u>
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Due to other governmental units	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Restricted	<u>130,825</u>	<u>2,205</u>	<u>133,030</u>
TOTAL FUND BALANCES	<u>130,825</u>	<u>2,205</u>	<u>133,030</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 130,825</u>	<u>\$ 2,205</u>	<u>\$ 133,030</u>

Negaunee Public Schools

NON-MAJOR DEBT SERVICE FUNDS

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2018

	<u>2006 Debt Retirement Fund</u>	<u>2008 Debt Retirement Fund</u>	<u>Total Non-major Debt Service Funds</u>
REVENUES:			
Local sources	\$ 372,805	\$ 147,490	\$ 520,295
State sources	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	372,805	147,490	520,295
	<hr/>	<hr/>	<hr/>
EXPENDITURES:			
Supporting Services:	1	2	3
Debt Service:			
Principal	105,000	140,000	245,000
Interest	174,513	5,600	180,113
Paying agent fees	500	150	650
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	280,014	145,752	425,766
	<hr/>	<hr/>	<hr/>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	92,791	1,738	94,529
	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES):			
Bond proceeds	-	-	-
Payments for premium and discount	-	-	-
Payments to bond escrow agent	-	-	-
Transfers in	-	-	-
Transfers Out	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCE	92,791	1,738	94,529
	<hr/>	<hr/>	<hr/>
Fund Balance, July 1	38,034	467	38,501
	<hr/>	<hr/>	<hr/>
FUND BALANCE, JUNE 30	\$ 130,825	\$ 2,205	\$ 133,030
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Negaunee Public Schools
NON-MAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET

June 30, 2018

	Technology Sinking Fund	Total
ASSETS		
Cash and cash equivalents	\$ 12,536	\$ 12,536
Investments	-	-
Accounts receivable	-	-
Due from other governmental units	-	-
Due from other funds	-	-
Inventories	-	-
Prepaid expenses	-	-
	12,536	12,536
TOTAL ASSETS	12,536	12,536
DEFERRED OUTFLOWS OF RESOURCES		
	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 12,536	\$ 12,536
LIABILITIES		
Accounts payable	\$ -	\$ -
Accrued liabilities	-	-
Due to other governmental units	-	-
Due to other funds	8,000	8,000
Unearned grant revenue	-	-
	8,000	8,000
TOTAL LIABILITIES	8,000	8,000
DEFERRED INFLOWS OF RESOURCES		
	-	-
FUND BALANCES		
Non-spendable	-	-
Restricted	4,536	4,536
Committed	-	-
Assigned	-	-
Unassigned	-	-
	4,536	4,536
TOTAL FUND BALANCES	4,536	4,536
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 12,536	\$ 12,536

Negaunee Public Schools

NON-MAJOR CAPITAL PROJECTS FUNDS

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2018

	Technology Sinking Fund	Total
	<u> </u>	<u> </u>
REVENUES:		
Local sources	\$ 10,000	\$ 10,000
State sources	-	-
Federal sources	-	-
	<u> </u>	<u> </u>
TOTAL REVENUES	<u>10,000</u>	<u>10,000</u>
 EXPENDITURES:		
Supporting services	-	-
Debt service	-	-
Facilities acquisition	5,464	5,464
School lunch activities	-	-
Athletic activities	-	-
	<u> </u>	<u> </u>
TOTAL EXPENDITURES	<u>5,464</u>	<u>5,464</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>4,536</u>	<u>4,536</u>
 OTHER FINANCING SOURCES (USES):		
Bond proceeds	-	-
Payments for premium and discount	-	-
Payments to bond escrow agent	-	-
Transfers in	-	-
Transfers (out)	-	-
	<u> </u>	<u> </u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	4,536	4,536
 Fund Balance, July 1	<u>-</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ 4,536</u></u>	<u><u>\$ 4,536</u></u>

COMPLIANCE SECTION



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

To the Board of Education of the
Negaunee Public Schools
101 South Pioneer Avenue, Suite 1
Negaunee, Michigan 49866

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Negaunee Public Schools (the School District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 10, 2018.

Internal Control over Financial Reporting

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

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

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

To the Board of Education of the
Negaunee Pubic Schools

Compliance and Other Matters

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

Purpose of this Report

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

Anderson, Tackman & Company, PLLC
Certified Public Accountants

October 10, 2018

COMMUNICATIONS SECTION



Negaunee Public Schools
Report to Management
For the Year Ended June 30, 2018

To the Board of Education of the
Negaunee Public Schools
101 South Pioneer Avenue, Suite 1
Negaunee, MI 49866

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Negaunee Public Schools (the School District) as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the School District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

This communication is intended solely for the information and use of management, the Board of Education, and others within the School District, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Co.
Certified Public Accountants

October 10, 2018



Negaunee Public Schools
Communication with Those Charged with Governance
For the Year Ended June 30, 2018

October 10, 2018

To the Board of Education of
Negaunee Public Schools
101 South Pioneer Avenue, Suite 1
Negaunee, Michigan 49866

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Negaunee Public Schools (the School District) for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 1, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in the footnotes to the financial statements. Newly adopted GASB standards are disclosed in the notes to the financial statements. As described in Note Z to the financial statements the School District implemented GASB Statement No. 75. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of accumulated depreciation is based on historical cost. Depreciation is calculated using the straight-line method. We evaluated the key factors and assumptions used to develop the current years depreciation expense and accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of compensated absences is based on employee pay rates and the various subsidiary ledgers maintained for hour balances. We evaluated the key factors and assumptions used to develop the accrued employee benefit balances in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of terminal leave is based on various labor and union contract terms or administrative policies. We evaluated the key factors and assumptions used to develop the accrued employee benefit balances in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the School District's proportionate share of Net Pension Liability and Net OPEB Liability is based on an actuarial performed for the Michigan Public Employees' Retirement System (MPERS) to determine its liability. We evaluated the key factors and assumptions used to develop the School District's proportionate share of Net Pension Liability and Net OPEB Liability, based on information provided by the Michigan Department of Technology, Management and Budget Office of Retirement Services, in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's allocation of the School District's pension and OPEB contributions subsequent to the measurement date is based contribution rates set by the Office of Retirement Services. We evaluated the key factors and assumptions used to develop the allocation in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements was:

The disclosure of the School District's proportionate share of the Defined Benefit Pension Plan and Other Post-Employment Benefits includes significant actuarial assumptions used in calculating the valuation. Gabriel, Roeder, Smith & Company was the actuarial company hired by the Retirement Board of the Michigan Public Employees' Retirement System (MPERS) and the Michigan Department of Technology, Management and Budget Office of Retirement Services for preparation of the annual actuarial valuation. A full listing of the actuarial assumptions used can be found MPERS' Comprehensive Annual Financial Report of the Fiscal Year Ended September 30, 2017.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate

level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 10, 2018.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

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

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the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the Members of the Board of Education and management of the School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Anderson, Tackman & Company, PLLC
Certified Public Accountants