

Beal City Public Schools

Financial Statements

June 30, 2018



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Beal City Public Schools
Members of the Board of Education and Administration
June 30, 2018

Members of the Board of Education

Denise McBride – President

Rod Cole – Vice President

Curt Gottschalk – Secretary

Robert Pasch – Treasurer

Heather Curtiss – Trustee

Tom Gross Jr. – Trustee

Ron Neyer – Trustee

Administration

William Chilman – Superintendent

Jeff Jackson – High School Principal

Jason Johnston – Elementary Principal

Rod Freeze – Business Manager



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Independent Auditors' Report

Management and the Board of Education
Beal City Public Schools
Mt. Pleasant, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Beal City Public Schools, 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.

Auditors' 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 auditors' 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 Beal City Public Schools, 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.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2018, the School District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters:

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the school district's proportionate share of the net pension liability, schedule of the school district's pension contributions, schedule of the school district's proportionate share of the net OPEB liability, and schedule of the school district's OPEB contributions, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Beal City Public Schools' basic financial statements. The other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as identified in the table of contents, is the responsibility of management and, other than the prior year information, was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, other than the prior year information, the other supplementary information, as identified in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior Year Supplementary Information

We also have previously audited, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, Beal City Public Schools' basic financial statements as of and for the year ended June 30, 2017, which are not presented with the accompanying basic financial statements. In our report dated September 1, 2017, we expressed unmodified opinions on the respective basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise Beal City Public Schools' basic financial statements as a whole. The 2017 information in the comparative supplementary schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2017 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2017 information in the comparative supplementary schedules are fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2018 on our consideration of Beal City Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Beal City Public Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Alma, Michigan
October 8, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

Beal City Public Schools (the District) management's discussion and analysis is intended to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position and its ability to address financial challenges in the years to come. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" and is intended to provide the financial results for the fiscal year ending June 30, 2018.

The following is an outline of how this financial report is presented.

Section 3
MD&A

Management's Discussion and Analysis
(required supplementary information)

Section 4
Basic Financial Statements

District – Wide Financial Statements
Fund Financial Statements
Fiduciary Fund
Notes to the Financial Statements

Section 5
Required Supplementary Information

Budgetary Comparison Schedule
Schedule of the School District's Proportionate Share of the
Net Pension Liability
Schedule of the School District's Pension Contributions
Schedule of the School District's Proportionate Share of the
Net OPEB Liability
Schedule of the School District's OPEB Contributions

Section 6
Other Supplementary Information

Combining Balance Sheets
Combining Statement of Revenues, Expenditures and Changes
in Fund Balances
Comparative Balance Sheet
Schedule of Revenues Compared to Budget
Schedule of Expenses Compared to Budget
Schedule of Outstanding Bonded Indebtedness

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

As noted above, Section 4 contains two basic types of financial statements: District Wide Financial Statements and Fund Financial Statements in accordance with GASB 34.

District Wide Financial Statements

The District wide financial statements provide a perspective of the District as a whole. These statements use the full accrual basis of accounting similar to private sector companies. There are two District wide statements: the Statement of Net Position and the Statement of Activities.

The Statement of Net Position combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations, regardless if they are currently available or not.

The Statement of Activities presents information showing how the District's net position changed during the fiscal year. To be consistent with full accrual basis accounting, all changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund Financial Statements

The fund financial statements are reported using the modified accrual method of accounting. Under this method of accounting, revenues are recorded when received or when they are measurable, and expenditures are accounted for in the period those goods and services were used to provide school programs. In addition, capital asset purchases are expensed in totality in the year purchased and not recorded as an asset. Debt payments are recorded as expenditures when they are paid and future debt obligations are not recorded.

Fund types include the General Fund, Special Revenue Fund, Debt Retirement Funds, Capital Project Funds, and Fiduciary Fund. The General Fund is used primarily to account for the general education requirements of the District. Its revenues are derived primarily from property taxes, state and federal distributions and grants. The Special Revenue Fund is used to record the activities of the food service operation. The Debt Retirement Funds are used to record the funding and payment of principal and interest on bonded debt. The Capital Project Fund is used to record the funding and payment of building construction and major site improvements. The Fiduciary Fund accounts for assets held by the District in a trustee capacity or as an agent for various student groups and related activities.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

Financial Analysis of the District as a Whole

Summary of Statement of Net Position

	2017	2018
Assets		
Current assets	\$2,770,551	\$3,770,494
Capital assets	11,031,832	11,198,826
less accumulated depreciation	<u>(6,086,780)</u>	<u>(6,169,897)</u>
Capital Assets, net book value	<u>4,945,052</u>	<u>5,028,929</u>
 Total assets	 7,715,603	 8,799,423
 Deferred Outflows of Resources	 <u>1,347,970</u>	 <u>2,229,949</u>
 Total assets and deferred outflows of resources	 <u>9,063,573</u>	 <u>11,029,372</u>
 Liabilities		
Current liabilities	1,186,977	1,524,794
Long-term liabilities	<u>11,395,565</u>	<u>15,026,806</u>
 Total liabilities	 12,582,542	 16,551,600
 Deferred Inflows of Resources	 <u>315,676</u>	 <u>1,042,945</u>
 Total liabilities and deferred inflows of resources	 <u>12,898,218</u>	 <u>17,594,545</u>
 Net Position		
Net investment in capital assets	2,303,786	2,063,023
Restricted for debt service	170,596	127,195
Restricted for grants	107,465	136,947
Unrestricted (deficit)	<u>(6,416,492)</u>	<u>(8,892,338)</u>
 Total net position	 <u><u>\$(3,834,645)</u></u>	 <u><u>(\$6,565,173)</u></u>

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

Summary of the Statement of Net Position

As indicated by the statement above, total net position is (\$6,565,173), a deficit caused by the implementation of the Governmental Accounting Standards Board's (GASB) Statement 68 which requires the District to record their proportionate share of the net pension liability of the Michigan Public Schools Employee Retirement System and by the implementation of (GASB) Statement 75 which requires the District to record their proportionate share of the net OPEB Other Post Employment Benefits. Net position can be separated into the following categories: net investment in capital assets, restricted and unrestricted.

Net investment in capital assets is a combination of capital assets at original cost less accumulated depreciation and related debt. The original cost of capital assets is \$11,198,826 which is an accumulation of capital assets year after year less any capital disposals. The accumulated depreciation is the accumulation of depreciation expense since acquisition. In accordance with Generally Accepted Accounting Principles (GAAP), depreciation expense is recorded on the original cost of the asset, less an estimated salvage value, expensed over the estimated useful life of the asset. Total accumulated depreciation is \$6,169,897. Many capital asset acquisitions are financed through long-term debt. Primarily, long-term debt is repaid as the debt service comes due through property taxes approved by the voters and is recorded as a liability in the statement of net position.

Net investment in capital assets is \$2,063,023. Net position restricted for debt service is \$127,195 and consists of cash balances in the debt service funds. Net position restricted for grants is \$136,947 and consists of tribal grants and other grant dollars awarded but not yet spent. The remaining (\$8,892,338) of net position is an unrestricted deficit. The unrestricted amount is an accumulation of prior years' operating results. This balance is directly affected each year by the District's operating results and GASB 68 and the implementation of GASB 75 in the June 30, 2018 financial statements.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

Summary of Statement of Activities

	2017	2018
Revenues		
Charges for Services	\$ 223,071	\$ 213,254
Operating Capital Grants and Contributions	1,355,200	1,500,317
General Revenues	5,815,161	5,993,236
Total revenue	7,393,432	7,706,807
Expenses		
Instruction	4,381,264	4,567,613
Supporting services	2,338,455	2,446,955
Food services	288,646	286,992
Community Services	6,126	6,696
Interest on long-term debt	99,069	99,721
Total expenses	7,113,560	7,407,977
Increase in net position	279,872	298,830
Net position beginning (deficit) (Restated in 2018)	(4,114,517)	(6,864,003)
Net position ending (deficit)	\$ (3,834,645)	\$ (6,565,173)

Revenues increased in 2017/2018 over 2016/2017 in General Revenue due to an increase of 8 students and also due to an increase of per pupil funding of \$120 per student. The Charges for Services decreased in 2017/2018 compared to 2016/2017 due to another years decrease in catering revenue and also due to fewer lunches being served. Gate receipts also decreased in 17/18 compared to 16/17 due to the biggest gate receipt games were played away in 17/18. BCHS also hosted fewer MHSAA tournament games. Operating grants & contributions increased in 2017/2018 compared to 2016/2017 due to an increase in local grants of approximately \$81,000 and an increase of approximately \$50,000 in the payments for the UAAL rate stabilization payments and a one time payment for the unfunded liability paid to the district by the State. RESD reimbursement for special education decreased by about \$30,000, however, the vocational education reimbursement from the RESD increased by about \$20,000.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

The 2017/2018 expenses increased from the 2016/2017 at the District wide level by \$294,417. The Instruction expenses increased during the current fiscal year by \$186,349. The Instruction expense increase was due to an increase in elementary salaries and benefits and also as a result of hiring additional para pros to help with math and reading interventions. The secondary salaries did go down as a result of retirements, however, the increase in the elementary exceeded the decrease in the secondary. The benefit increase in instructional expense was mainly due to increased retirement rates. Instructional expense also increased as a result of an increased number of students attending the vocational education program. The amount of money spent from grants increased over the previous year in instructional areas, this created additional expenses in the instructional areas. The support services expenses increased by approximately \$108,500 this was a result of an increase of a small percentage in just about every function over the 2016/2017 expenditures. The largest line item increase supports services was bus fuel. The School used about the same number of gallons year over year, however, the cost per gallon increased on average of about \$.80 per gallon. Food service expense had a small increase over 16/17 most of the increase was labor and benefit costs.

Revenues

Local revenues are primarily made up of property taxes to fund operating expenses and retire debt of previous bond issues. Local revenues also include grant awards from the Saginaw Chippewa Indian Tribe in the amount of \$150,613. The tribe was extremely generous to the district this year. Other sources of local revenue include fees and charges for services such as hot lunch, athletic gate receipts, and sports participation fees.

State revenues account for the majority of the District's revenues and consist primarily of the per student foundation allowance. State revenues made up approximately 87% of the District's general fund revenues in 2017/2018. This ties the District directly to the overall economy of the State of Michigan.

Federal sources include Title grants in the General Fund and monies for the Food Service Fund. Federal revenues totaled less than \$750,000 alleviating the need for a single audit of federal funds.

Interdistrict sources of revenue consist of the County special education tax and the vocational education tax collected and distributed by the local Intermediate School District.

Property Taxes

A major portion of local revenue is provided from property taxes for the General Fund and Debt Retirement Funds. Property tax revenue totaled \$881,416. This amount was obtained through a combination of two voter approved millage levies totaling 18 mills on the taxable value of non-homestead properties and 6 mills on the taxable value of commercial personal property for the District's operation and in August 2017 the voters approved a renewal of a 7 mill levy on the taxable value of all properties, homestead and non-homestead, for debt interest and principal payments of bond issues. Tax revenues saw an increase in 2017/2018. We expected this increase as taxable values increased in 2017 with a positive growth percentage. Taxable values determine the amount of local tax income for the operating revenues of the General Fund, and also determine the Debt Retirement Funds revenue generated each year. While the State of Michigan will make up the shortfall in operating revenue in the General Fund, the Debt Retirement Fund is entirely dependent on the 7 mills allocated on taxable values to generate the funds necessary to pay off the districts long term debt.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

Fortunately, taxable values have increased for the last few years which is demonstrated in the following table of taxable value history.

Year	Taxable Value	Growth
2009	81,878,623	4.68%
2010	81,673,543	(0.25%)
2011	81,544,258	(0.16%)
2012	82,561,107	1.25%
2013	81,046,450	(1.83%)
2014	82,930,946	2.33%
2015	85,472,686	3.06%
2016	86,666,159	1.40%
2017	89,570,633	3.30%
2018	92,009,563	2.72%

State Aid Foundation Allowance

A significant portion of state funding to the District is received through the foundation allowance. The foundation allowance is funding from the state based on student enrollment. Student enrollment is blended at 90% of current year October count and 10% of the prior February count. The blended enrollment of Beal City Public Schools for 2017/2018 was 708.69 students, an increase of 6.44 students from the 2016/2017 student enrollment of 702.25, this increase resulted in increased state per pupil funding of approximately \$49,011 compared to the year prior. The State of Michigan establishes per student foundation allowance on an annual basis.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

Capital Assets and Long-term Debt

Capital Assets

On June 30, 2018 the District had \$5,028,929 invested in a broad range of capital assets as illustrated below:

Land	\$187,593
Construction in Process	45,183
Buildings and additions	7,706,898
Site improvements	1,763,938
Equipment and furniture	425,654
Buses and other vehicles	679,338
Fiber optic network	<u>390,222</u>
 Subtotal	 11,198,826
 Less accumulated depreciation	 <u>6,169,897</u>
 Net capital assets	 <u>\$ 5,028,929</u>

Long-term Debt

At the end of the current fiscal year, the Beal City Public School district had total general obligation bonded debt outstanding of \$2,970,000. The general obligation bonded debt outstanding consists of four bond issues. The 2012 refunding issue of the 2002 bond issue for the sports complex, the 2014 refunding issue of the 1996 issue for the addition to the high school, the 2012 bond issue to pay off the school bond loan fund and a new voter approved bond issue from August 2017 used to replace boilers, purchase buses, replace roofs, and remodel the small gym to make the new bleachers useable. The bonds sold in 2017 totaled \$910,000. The District was approved to sell more bonds in 2021 as the second phase of the project. The Phase II bond sale will be for \$4,465,000. The second phase will be used to add six classrooms to the elementary, purchase some more buses and also remodel a variety of rooms in the school.

Other long term debt includes, compensated absences, retirement incentives, and a capital lease of copy machine equipment. Total outstanding long term debt of the district at the end of the current year is \$3,250,999. Both the compensated absences and the retirement incentives are estimates of potential costs. Teachers are eligible for a retirement incentive of \$9,000 if they retire from the MPERS the first year they are eligible to retire. The district has estimated the likelihood of a teacher qualifying for this incentive and multiplied the likelihood by the total available benefit of \$9,000. Compensated absences consist of termination pay, accrued sick time benefits and accrued vacation and personal time. The long term debt is estimated on the premise that all staff will qualify for a payout of leave time when they end their employment with the district.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

General Fund Budgetary Highlights

Original vs. Actual Budget

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

The district amended its budget twice during the 2017/2018 school year. For the fiscal year 2017/2018, the budget was amended in April and June of 2018.

General Fund Revenues Budget vs. Actual

Fiscal Year	Original Budget	Final Budget	Final Actual	Variance of final to actual
2017/2018	\$6,462,017	\$6,768,111	\$6,761,946	\$6,165

The District's actual General Fund revenues were less than the final budget by \$6,165. The difference in revenues from the final budget to actual was mainly due to differences in the estimated carryforward amounts for At Risk Revenues and UAAL reimbursement, and the 35(a) Literacy Grant.

General Fund Expenditures Budget vs. Actual

Fiscal Year	Original Budget	Final Budget	Final Actual	Variance of final to actual
2017/2018	\$6,834,697	\$6,649,855	\$6,599,109	\$(50,746)

The District's General Fund expenditures were less than the final expenditure budget by \$50,746. Tribal grants received from the Saginaw Chippewa Indian Tribe make up the largest portion of the discrepancy in budgeted to actual expenditures approximately \$34,000 of grants were budgeted to spend that did not get spent. There were some grants budgeted to spend, but the product did not get delivered until July. All unspent Tribal grant budget items remaining at the end of the 2017/2018 fiscal year will be carried over to the 2018/2019 budget. The expenditures in most of the function areas were less than the final expenditure budget. Individually they were not significant.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

Excess of Expenditures over appropriations

The School District did spend \$7.97 more on non public school expense for Title Services than budgeted. All other function level expenses were less than budgeted. There were object level expenses in excess of the budgeted amounts, all these amounts were nominal in value.

Economic Factors and Next Year's Budgets and Rates

The minimum foundation allowance for 2018/2019 has been set at \$7,871 per student. The State has appropriated additional funds to reflect the actuarially estimated costs of the required state share of the MPSERS Unfunded Actuarial Accrued Liability (UAAL) to maintain the UAAL cap at 20.96%. The district will continue to receive the UAAL payment and the district will be required to make monthly payments to the Office of Retirement Services equaling the amount of UAAL revenue received. The State has also increased the amount the school will receive for our At Risk students. The school has a plan for how best to meet the needs of our At Risk students and best utilize this additional funding source. At the same time we have also been informed the amount the School will receive for our Title program will be decreasing slightly. While the foundation allowance has increased, so has the cost of meeting all of the new requirements implemented by the State.

Under the direction of our State Governor, Mr. Rick Snyder, we have seen a number of education reform laws pass in the past few years. It is easy to get the feeling that educators are being attacked by our legislature. Many of the laws passed in the last few years seem to be more about punishing educators, and educator unions in particular, as they do about improving education in the State of Michigan.

Two of those educational reforms that will have a huge impact on the world of education and our school district's budget are online education and dual enrollment and early middle college. Between dual enrollment classes, on line classes and early middle college classes, the school paid out \$82,190 in fiscal year 17/18 to cover the cost of these programs, we were reimbursed by the State \$3,000 for the dual enrollment classes. We expect the number of students who participate in one of these programs to continue to grow. We also expect to see additional costs to the district for all three of these programs. In our school district these reforms have added to the budget as we are required to pay for the online education and dual enrollment without the ability to reduce staff so they have only added to the problems of educational finance in our school district.

The State legislator passed a retirement reform bill in 2012 to try to ensure that the Michigan Public School Retirement System will be sustainable for years to come. The reforms affected all current, retired, and future school personnel. Retirees saw a decrease in the amount of insurance premium subsidy they received from the Michigan Public Schools Retirement System. New hires will no longer be offered an insurance premium subsidy upon retirement and all current public school employees in the State of Michigan were required to make choices about the amount they will contribute to their retirement benefits and the amount they will receive upon retirement. In 2017, the State legislature again passed a retirement reform bill, creating yet another pension program to maintain and account for. The new retirement program is more of a 401K type program. The State is still offering a defined benefit retirement program under the new system, however; if the funding falls below 85% for two years in a row the employee and the employer will have an increased contribution to try to get the funding above the 85% of being fully funded. The new program will be for any new hires after February 1, 2018.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

The legislature has agreed to limit the unfunded liability amount of the retirement rate to 20.96%. While this should help keep the cost of retirement down, there is the possibility that it will decrease other funding provided to public schools. The legislature only has so much money to work with. If they use dollars to keep the retirement rate down, they will have to make up for that use of dollars somewhere else in the budget. So while the retirement rate may be more stable, other funding may be decreased to make up for it.

Mr. William C. Chilman IV is now starting his twelfth year as the Superintendent of Beal City Public Schools. Mr. Chilman believes the three most important jobs a Superintendent has are to first and for most, improve student achievement. Secondly, during these financially difficult times, maintain the district's fiscal integrity, which is becoming even more challenging with ongoing changes at the state level. Third, but not least of all, promote the school district and provide positive school and community relations throughout the region. These three jobs have become part of our three board goals, so the board members and Mr. Chilman are working together as a team.

For most of Mr. Chilman's first eleven years Beal City Public Schools had a very stable administration team. That changed during the 2015/2016 end of the school year and heading into the 2016/2017 year. The district lost their long term business manager and replaced her with a new business manager who had 18 years of experience as a CPA, however, he did not have any school accounting experience. The challenges of learning a new accounting system and new reporting requirements was and is a challenge, but the reports were all filed and some new procedures have been put in place to meet the demands of the business office. The business manager has received certification from the MSBO as a school business CFO during the 2017/2018 school year. The District also lost their elementary principal that same summer and the new principal received his School Administration Certificate during the 2017/2018 school year. This past school year the District lost the long term Secondary Principal. The High School Principal was replaced with an individual who has not been a Principal prior to coming to Beal City. However, he has 20 years of teaching experience and is working very hard and learning every day about Beal City and being a Principal.

The District closed the alternative education program effective for the 2016/2017 school year. The program was facing decreasing enrollment due to many factors, including online education. As a result of the Alternative Education program closing, the School started a Credit Recovery Program. While this program is in its infancy, it gives Beal kids an opportunity to continue their education at Beal. We saw a large increase in participation in the credit recovery program during only its second year. The District also purchased a new software for the Credit Recovery Program and we have had positive feedback regarding the software.

The District proposed a bond issue to the Beal City community August 8th, 2017. The Community overwhelmingly supported the bond issue. The District is currently using large amounts of cash flow for large maintenance and repairs and capital improvements. This bond issue will allow the district to reduce the amount of cash flow it has been putting into these capital projects and give the District more flexibility in planning for future capital expenditures and build up the District's fund balance. The bond issue will be sold over two different sale dates. The first series of bonds will be sold in November 2017 and the second (and largest) series will be sold in 2021 or 2022.

Beal City has two mottos that we live by. One is "Educational Teamwork Today Equals Educational Excellence Tomorrow". Our staff, students, parents and the community work together to create an environment where all parties can achieve excellence. The second motto is "a BIG education in a small school environment". Again, we all work hard each day to balance the financial part of education with the educational opportunities we provide to our students, and we are getting it done with true success. Beal City Public Schools continues to be recognized in the region and around the state as an educational leader academically, artistically, and athletically.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

The Beal City Board of Education and the Beal City Education Association (BCEA) settled a three year contract in June of 2016. Teachers will see small % increases each year and steps in all three years of the contract. The teachers have moved back to MESSA insurance. Beginning January of 2014 the teaching staff was given the option of MESSA choices II or the MESSA ABC plan which is a high deductible insurance plan with a health saving component. The remainder of the staff also moved to MESSA on July 1, 2014. Administration is currently looking at options to provide the employees with a different health insurance option that may or may not save the district money, but will almost certainly save the employees money. Both the MESSA Choices II plan and the MESSA ABC plan exceed the allowable cap established by our State legislature so all employees will be contributing to the cost of their health insurance. Those who receive dental and vision benefits will be paying 20% of the premium for those insurance benefits also.

District administration has been diligent about learning the details of the Patient Protection and Affordable Care Act. It is not easy to keep up to speed on the provisions of the law and when they take effect. One of those provisions is the "play or pay" rule which states that an employer must offer affordable health care to 95% of our full time staff who work an average of 30 hours per week. Effective January 1, 2016 for employers with 50 or more employees, the "Employer Mandate" penalty started. This penalty can be as high as \$3,480 per full-time employee receiving a premium subsidy on the exchange. The district has partnered with SET/SEG insurance providers to track hours for all current staff to ensure that we do not have employees who work over 30 hours per week that do not receive insurance. There is the potential of significant added costs to employee benefits as we have a number of employees not receiving health benefits who work at or over 30 hours per week.

Student count numbers for fall of 2018 have not yet been finalized. As an overall district, we do anticipate a decrease in enrollment from 2017/2018 to 2018/2019 of approximately 20 to 25 students, we did budget for a decrease of 14 students. This decrease in enrollment is going to result in decreased revenues in excess of \$150,000 from 17/18 to 18/19. In 2018/2019 teachers did receive a step increase and a .5% increase on the salary schedule. The districts original budget had a large deficit spend component and now with a bigger loss of students than we were predicting, the potential loss for 2018/2019 will most likely be larger than the original budget. The administration is working diligently at finding ways to control costs and yet provide the best education possible. The administration is keenly aware of the ever increasing needs and requirements of educating today's children. There are needs that will need to be addressed in the near future that will add to the District's expenses. Administration is reviewing their options of providing the best possible education with current capital, both human and facility, and what is needed to meet the needs of our students and staff.

The Board of Education is committed to ensuring the financial stability of the school district. As there seems to be no end in sight to the less than equitable funding of public education in the State of Michigan, the Board feels the need to be very cautious with spending. The uncertainty of State funding is an ongoing problem. The instability and lack of state funding creates a real challenge to Michigan's public schools. While the foundation increases have been helpful, and the school has been able to build some additional fund equity over the last two years, there are still many financial issues that will be a challenge for years to come which will definitely erode the fund equity if school funding is not increased. The School Finance Research Collaborative developed a report giving Michigan the tools needed to determine where proper funding levels might be to educate our students. Michigan's current level of funding education is \$7,871 per student to cover all costs. The study determined the base amount to educate a student would start at \$9,590 per student. The base amount of \$9,590 would need to be increased to include transportation costs, special education, and career and technical education. The study has been done, now we need the legislature to use this tool to find a way to give the school the tools we need to provide an even better education than what we already are providing.

**Beal City Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the finances for the Beal City Public Schools for all those with an interest in the district's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Beal City Public Schools Central Office, 3180 W Beal City Road, Mt. Pleasant, MI 48858.

BASIC FINANCIAL STATEMENTS

Beal City Public Schools
Statement of Net Position
June 30, 2018

	<u>Governmental Activities</u>
Assets	
Cash	\$ 2,636,046
Taxes receivable	805
Accounts receivable	83
Due from other governmental units	1,096,935
Inventory	1,496
Prepaid items	35,129
Capital assets not being depreciated	232,776
Capital assets - net of accumulated depreciation	<u>4,796,153</u>
 Total assets	 <u>8,799,423</u>
 Deferred Outflows of Resources	
Deferred amount relating to net pension liability	1,980,556
Deferred amount relating to net OPEB liability	190,085
Deferred amount on debt refunding	<u>59,308</u>
 Total deferred outflows of resources	 <u>2,229,949</u>
 Total assets and deferred outflows of resources	 <u>11,029,372</u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Statement of Net Position
June 30, 2018

	Governmental Activities
Liabilities	
Accounts payable	\$ 235,815
Accrued expenditures	297,868
Accrued salaries payable	323,811
Unearned revenue	75,630
Long-term liabilities	
Net pension liability	9,219,360
Net OPEB liability	3,148,117
Debt due within one year	591,670
Debt due in more than one year	2,659,329
Total liabilities	16,551,600
Deferred Inflows of Resources	
Deferred amount relating to net pension liability	936,516
Deferred amount relating to net OPEB liability	106,429
Total deferred inflows of resources	1,042,945
Total liabilities and deferred inflows of resources	17,594,545
Net Position	
Net investment in capital assets	2,063,023
Restricted for	
Debt service	127,195
Grants	136,947
Unrestricted (deficit)	(8,892,338)
Total net position	\$ (6,565,173)

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Statement of Activities
For the Year Ended June 30, 2018

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
Functions/Programs				
Governmental activities				
Instruction	\$ 4,567,613	\$ 1,350	\$ 1,354,922	\$ -
Supporting services	2,446,955	77,453	857	-
Food services	286,992	134,451	144,538	-
Community services	6,696	-	-	-
Interest on long-term debt	99,721	-	-	-
	<u>\$ 7,407,977</u>	<u>\$ 213,254</u>	<u>\$ 1,500,317</u>	<u>\$ -</u>
				(5,694,406)
General revenues				
Property taxes, levied for general purposes				377,081
Property taxes, levied for debt service				504,335
State aid - unrestricted				5,075,082
Interest and investment earnings				16,706
Gain on sale of capital assets				14,761
Other				5,271
				<u>5,993,236</u>
				298,830
				<u>(6,864,003)</u>
				<u>\$ (6,565,173)</u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Governmental Funds
Balance Sheet
June 30, 2018

	General Fund	Capital Projects 2017	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 1,415,479	\$ 704,577	\$ 515,990	\$ 2,636,046
Taxes receivable	805	-	-	805
Accounts receivable	83	-	-	83
Due from other funds	15,738	7,635	-	23,373
Due from other governmental units	1,094,732	-	2,203	1,096,935
Inventory	-	-	1,496	1,496
Prepaid items	35,129	-	-	35,129
Total assets	<u>\$ 2,561,966</u>	<u>\$ 712,212</u>	<u>\$ 519,689</u>	<u>\$ 3,793,867</u>
Liabilities				
Accounts payable	\$ 22,014	\$ 210,204	\$ 3,597	\$ 235,815
Due to other funds	-	-	23,373	23,373
Accrued expenditures	290,991	-	-	290,991
Accrued salaries payable	323,811	-	-	323,811
Unearned revenue	70,280	-	5,350	75,630
Total liabilities	<u>707,096</u>	<u>210,204</u>	<u>32,320</u>	<u>949,620</u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Governmental Funds
Balance Sheet
June 30, 2018

	General Fund	Capital Projects 2017	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balance				
Non-spendable				
Inventory	\$ -	\$ -	\$ 1,496	\$ 1,496
Prepaid items	35,129	-	-	35,129
Restricted for				
Food service	-	-	86,494	86,494
Debt service	-	-	134,072	134,072
Capital projects	-	502,008	-	502,008
Grants	136,947	-	-	136,947
Assigned				
Future fiscal year budget	201,751	-	-	201,751
Capital projects	-	-	265,307	265,307
Unassigned	1,481,043	-	-	1,481,043
Total fund balance	<u>1,854,870</u>	<u>502,008</u>	<u>487,369</u>	<u>2,844,247</u>
Total liabilities and fund balance	<u>\$ 2,561,966</u>	<u>\$ 712,212</u>	<u>\$ 519,689</u>	<u>\$ 3,793,867</u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
of Governmental Activities
June 30, 2018

Total fund balances for governmental funds	\$ 2,844,247
Total net position for governmental activities in the statement of net position is different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	232,776
Capital assets - net of accumulated depreciation	4,796,153
Deferred outflows (inflows) of resources	
Deferred outflows of resources from debt refunding	59,308
Deferred inflows of resources resulting from net pension liability	(936,516)
Deferred outflows of resources resulting from net pension liability	1,980,556
Deferred inflows of resources resulting from net OPEB liability	(106,429)
Deferred outflows of resources resulting from net OPEB liability	190,085
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(6,877)
Retirement incentive payable	(68,818)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Compensated absences	(156,967)
Bonds payable	(2,989,352)
Other loans payable and liabilities	(35,862)
Net pension liability	(9,219,360)
Net OPEB liability	<u>(3,148,117)</u>
Net position of governmental activities	<u><u>\$ (6,565,173)</u></u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

	General Fund	Capital Projects 2017	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 543,892	\$ 7,782	\$ 763,433	\$ 1,315,107
State sources	5,874,909	-	26,820	5,901,729
Federal sources	75,984	-	132,065	208,049
Interdistrict sources	267,161	-	-	267,161
Total revenues	<u>6,761,946</u>	<u>7,782</u>	<u>922,318</u>	<u>7,692,046</u>
Expenditures				
Current				
Education				
Instruction	4,184,897	-	-	4,184,897
Supporting services	2,122,308	40,315	-	2,162,623
Food services	-	-	280,721	280,721
Community services	6,696	-	-	6,696
Capital outlay	92,757	375,459	96,670	564,886
Debt service				
Principal	10,833	-	586,000	596,833
Interest and other expenditures	1,869	-	85,926	87,795
Total expenditures	<u>6,419,360</u>	<u>415,774</u>	<u>1,049,317</u>	<u>7,884,451</u>
Excess (deficiency) of revenues over expenditures	<u>342,586</u>	<u>(407,992)</u>	<u>(126,999)</u>	<u>(192,405)</u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

	General Fund	Capital Projects 2017	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)				
Proceeds from issuance of bonds	\$ -	\$ 910,000	\$ -	\$ 910,000
Proceeds from sale of capital assets	14,761	-	-	14,761
Transfers in	15,000	-	179,749	194,749
Transfers out	(179,749)	-	(15,000)	(194,749)
Total other financing sources (uses)	(149,988)	910,000	164,749	924,761
Net change in fund balance	192,598	502,008	37,750	732,356
Fund balance - beginning	1,662,272	-	449,619	2,111,891
Fund balance - ending	<u>\$ 1,854,870</u>	<u>\$ 502,008</u>	<u>\$ 487,369</u>	<u>\$ 2,844,247</u>

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2018

Net change in fund balances - Total governmental funds	\$ 732,356
Total change in net position reported for governmental activities in the statement of activities is 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 and reported as depreciation expense.	
Depreciation expense	(348,782)
Capital outlay	442,896
Loss on sale of capital assets (net book value)	(10,237)
Expenses are recorded when incurred in the statement of activities.	
Interest	(453)
Retirement incentive payable	(8,290)
Compensated absences	8,045
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in net pension liability	(241,639)
Net change in the deferral of resources related to the net pension liability	84,677
The statement of net position reports the net OPEB liability and deferred outflows of resources and deferred inflows related to the net OPEB liability and OPEB expense. However, the amount recorded on the governmental funds equals actual OPEB contributions.	
Net change in net OPEB liability	31,547
Net change in the deferral of resources related to the net OPEB liability	(66,650)
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are recorded as liabilities and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Debt issued	(910,000)
Repayments of long-term debt	596,833
Amortization of premiums	2,150
Amortization of deferred amount on refunding	(13,623)
Change in net position of governmental activities	\$ 298,830

See Accompanying Notes to the Financial Statements

Beal City Public Schools
Fiduciary Funds
Statement of Assets and Liabilities
June 30, 2018

	<u>Agency Fund</u>
Assets	
Cash	<u>\$ 135,354</u>
Liabilities	
Due to student groups	<u>\$ 135,354</u>

Beal City Public Schools
Notes to the Financial Statements
June 30, 2018

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Beal City Public Schools (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net position resulting from current year activities.

Fund Financial Statements

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as

Beal City Public Schools
Notes to the Financial Statements
June 30, 2018

well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government. The School District has considered the impact of GASB Statement No. 77, *Tax Abatement Disclosures* and determined that there are no abatements that reduce property tax revenues.

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

2017 Bond Capital Projects Fund – The 2017 Bond Capital Projects Fund is used to account for financial resources to be used for construction or major renovation of facilities in accordance with the 2017 bond issuance.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Fund includes the Food Service Fund. The annual operating deficit generated by these activities is generally transferred from the General Fund.

Capital Projects Fund – The Public Improvement Fund is used to account for financial resources to be used for construction or major renovation of facilities and is funded by General Fund transfers and interest earnings.

Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Net Position or Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2018, the rates are as follows per \$1,000 of assessed value.

General Fund	
Non-principal residence exemption	18.00000
Commercial personal property	6.00000
Debt Service Funds	7.00000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. Approximately 98% of the School District's tax roll lies within the Townships of Nottawa, Isabella and Deerfield.

Beal City Public Schools
Notes to the Financial Statements
June 30, 2018

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before July 31. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the County of Isabella and remitted to the School District by May 15.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their acquisition value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000. 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 assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	15-50 years
Site improvements	10-20 years
Equipment and furniture	5-25 years
Fiber optic network	20 years
Buses and other vehicles	6-8 years

Deferred Outflows of Resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension and OPEB earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and

what is actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. The School District also reported deferred outflows of resources for pension and OPEB contributions made after the measurement date. This amount will reduce the net pension and OPEB liabilities in the following year.

Deferred amounts on bond refundings are included in the district-wide financial statements. The amounts represent the difference between the reacquisition price and the net carrying amount of the prior debt.

Compensated Absences – Retiring staff are paid four (4) percent of the staff members current annual salary, provided the staff member has been employed by the school district for at least ten (10) years for teachers and support staff. This liability is measured using the termination method.

Staff members may accumulate a maximum of one hundred eighty (180) unused sick days. Upon retirement or termination of employment, unused sick days are paid at 50% of the teachers' sub rate times the number of unused days up to a maximum of 100 days. Ten (10) years of service as an employee of the Beal City Public Schools is necessary in order to qualify. There is no provision for payment of unused personal days for teaching staff.

For all non teaching staff accumulated personal time and vacation time will be paid out upon leaving the district if the employee notifies the district of their intent to leave the district two weeks prior to their last day worked. Personal and vacation time will be paid out at the individual's hourly or daily rate.

The current portion of any accrued sick, personal or vacation pay cannot be reasonably estimated and, as such, is not included as a current liability.

Beal City Public Schools
Notes to the Financial Statements
June 30, 2018

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period.

In the School District's fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

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

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

Deferred inflows of resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. There were no current year deferred inflows of resources. For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension and OPEB earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining service lives of the employees and retirees in the plans. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to MPSERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Education. Residual amounts in governmental funds other than the General Fund

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are automatically assigned by their nature. The School District does not have any assigned fund balance at year end.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the School District's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Use of Estimates

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

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, 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 services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

Statement No. 85, *Omnibus 2017* addresses practice issues that were identified during implementation and application of certain GASB Statements. This statement covers issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which is effective for the fiscal year ending June 30, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The statement provides uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irremovable trust for the purpose of extinguishing that debt were acquired. Statement No. 86 is effective for the fiscal year ending June 30, 2018.

Upcoming Accounting and Reporting Changes

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

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Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 87, *Leases* increases the usefulness of the District's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the District's leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the District's financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities districts should include when disclosing information related to debt. It 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. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It 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 statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

The School District is evaluating the impact that the above GASBs will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

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The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations.

Excess of Expenditures over Appropriations

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Community services	\$ 6,687	\$ 6,696	\$ 9
Transfers out	165,000	179,749	14,749

Note 3 - Deposits

The School District's deposits were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	<u>\$ 2,636,046</u>	<u>\$ 135,354</u>	<u>\$ 2,771,400</u>

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	<u>\$ 2,771,400</u>
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Credit risk – State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Concentration of credit risk – The School District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year-end, the School District's bank balance was \$2,834,143. Of the bank balance, \$2,584,143 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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Note 4 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 187,593	\$ -	\$ -	\$ 187,593
Construction-in-progress	-	45,183	-	45,183
Total capital assets not being depreciated	187,593	45,183	-	232,776
Capital assets being depreciated				
Buildings and additions	7,395,251	311,647	-	7,706,898
Site improvements	1,763,938	-	-	1,763,938
Equipment and furniture	510,834	26,301	111,481	425,654
Fiber optic network	390,222	-	-	390,222
Buses and other vehicles	783,994	59,765	164,421	679,338
Total capital assets being depreciated	10,844,239	397,713	275,902	10,966,050
Less accumulated depreciation for				
Buildings and additions	3,611,471	170,648	-	3,782,119
Site improvements	1,224,100	90,132	-	1,314,232
Equipment and furniture	277,437	25,851	103,244	200,044
Fiber optic network	380,464	9,758	-	390,222
Buses and other vehicles	593,308	52,393	162,421	483,280
Total accumulated depreciation	6,086,780	348,782	265,665	6,169,897
Net capital assets being depreciated	4,757,459	48,931	10,237	4,796,153
Net capital assets	\$ 4,945,052	\$ 94,114	\$ 10,237	\$ 5,028,929

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

Governmental activities	
Instruction	\$ 229,442
Support services	118,831
Food services	509
Total governmental activities	<u>\$ 348,782</u>

The School District entered into a construction contract in the amount of \$647,961, including change orders. At June 30, 2018, \$259,322 remained as the balance to finish including retention.

Note 5 - Interfund Receivable and Payable and Transfers

Individual interfund receivable and payable balances at year end were:

Due From Fund	Due to Fund	Amount
Nonmajor Governmental Funds	General Fund	\$ 15,738
Nonmajor Governmental Funds	2017 Bond Capital Projects Fund	7,635
		<u>\$ 23,373</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

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Interfund transfers consist of the following:

	<u>Transfers Out</u>		
	General Fund	Nonmajor Governmental Funds	Total
Transfers in			
General Fund	\$ -	\$ 15,000	\$ 15,000
Nonmajor Governmental Funds	179,749	-	179,749
	<u>\$ 179,749</u>	<u>\$ 15,000</u>	<u>\$ 194,749</u>

The transfer from the Food Service Fund to the General Fund was to reimburse the General Fund for indirect costs. The transfer from the General Fund to the Public Improvement Fund was made to cover the costs of School District improvements.

Note 6 - Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue are as follows:

Student deposits	\$ 5,350
Technology grant	<u>70,280</u>
Total	<u>\$ 75,630</u>

Note 7 - Leases

Capital Lease

The School District has a capital lease for copy machines. The future minimum lease payments are as follows:

Year ending June 30,	
2019	\$ 12,787
2020	12,787
2021	<u>12,787</u>
Total minimum lease payments	38,361
Less amount representing interest	<u>(2,499)</u>
Present value of minimum lease payments	<u>\$ 35,862</u>

The assets acquired through capital leases are as follows:

Equipment and furniture	\$ 48,289
Less accumulated depreciation	<u>(20,120)</u>
Total	<u>\$ 28,169</u>

Note 8 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, capital leases, and retirement incentives.

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Notes to the Financial Statements
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Long-term obligation activity is summarized as follows:

				Amount Due	
	Beginning Balance	Additions	Reductions	Ending Balance	Within One Year
General obligation bonds	\$ 2,646,000	\$ 910,000	\$ 586,000	\$ 2,970,000	\$ 560,000
Capital lease	46,695	-	10,833	35,862	11,398
Compensated absences	165,012	12,227	20,272	156,967	20,272
Retirement incentives	60,528	8,290	-	68,818	-
Premium on bonds	21,502	-	2,150	19,352	-
Total	<u>\$ 2,939,737</u>	<u>\$ 930,517</u>	<u>\$ 619,255</u>	<u>\$ 3,250,999</u>	<u>\$ 591,670</u>

For governmental activities, compensated absences and retirement incentives are primarily liquidated by the General Fund.

General obligation bonds payable at year end, consist of the following:

\$1,157,000 serial bond due in annual installments of \$71,000 to \$81,000 through May 1, 2027, interest at 3.45%.	\$ 688,000
\$1,009,000 serial bond due in annual installments of \$129,000 to \$240,000 through May 1, 2021, interest at 3.25% to 3.95%.	567,000
\$2,110,000 serial bond due in annual installments of \$240,000 to \$380,000 through May 1, 2021, interest at 2.00% to 2.60%.	880,000
\$910,000 serial bond due in annual installments of \$15,000 to \$135,000 through May 1, 2027, interest at 1.20% to 2.60%.	<u>835,000</u>
Total general obligation bonded debt	<u>\$ 2,970,000</u>

Future principal and interest requirements for bonded debt are as follows:

Year Ending June 30,	Principal	Interest	Total
	2019	\$ 560,000	\$ 82,517
2020	576,000	67,925	643,925
2021	604,000	50,296	654,296
2022	214,000	32,350	246,350
2023	212,000	27,195	239,195
2024-2028	<u>804,000</u>	<u>55,567</u>	<u>859,567</u>
Total	<u>\$ 2,970,000</u>	<u>\$ 315,850</u>	<u>\$ 3,285,850</u>

The general obligation bonds are payable from the Debt Service Funds. As of year end, the funds had a balance of \$134,072 to pay this debt. Future debt and interest will be payable from future tax levies.

Compensated Absences

Accrued compensated absences at year end, consist of \$71,489 of termination pay, \$71,383 in accrued sick time benefits, and \$14,095 of vacation and personal time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Retirement Incentive

In the event a teacher retires from the district, as soon as he/she is eligible for full benefits under the Michigan Public Schools Retirement System or at the end of the school year during which he/she becomes eligible for full benefits, the teacher shall be paid \$3,000 per year on January 1 following his/her retirement for three consecutive years. The School District has estimated the likelihood of a teacher qualifying for this incentive and multiplied the likelihood by the total available benefit of \$9,000. The School District has recorded a long term liability of \$68,818 at year end.

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Deferred Amount on Refunding

The School District issued bonds in 2012 to advance refund and retire previously issued bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$34,253. This amount, less accumulated amortization, is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2027. The balance at June 30, 2018 is \$20,368.

The School District issued bonds in 2012 to advance refund and retire the school bond loan fund debt. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$39,608. This amount, less accumulated amortization, is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2021. The balance at June 30, 2018 is \$22,257.

The School District issued bonds in 2014 to advance refund and retire previously issued bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$40,000. This amount, less accumulated amortization, is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2021. The balance at June 30, 2018 is \$16,683.

The following summarizes the activity of the deferred amount on refunding:

	Beginning			Ending
	Balance	Additions	Reductions	Balance
2012 Refunding Bonds	\$ 22,677	\$ -	\$ 2,309	\$ 20,368
2012 Refunding Bonds, Series B	28,263	-	6,006	22,257
2014 Refunding Bonds	21,991	-	5,308	16,683
Total	\$ 72,931	\$ -	\$ 13,623	\$ 59,308

Note 9 - Risk Management

The School District participates in a public entity risk pool through the School Employers Group. With the exception of unemployment described below, this program provides substantially all the insurance needs of the School District. The possibility of additional liabilities in excess of current year contributions exists, however, since the amounts are indeterminable and believed to be immaterial, no contingent liabilities or assets have been recognized on the School District's financial statements.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District had no unemployment compensation expense for the year. No provision has been made for possible future claims.

Note 10 - Pension Plan

Plan Description

The Michigan Public School Employees' Retirement System (System or MPERS) 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.

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

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

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

Benefits Provided

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

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

Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2016 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 \$834,456 for the year ending 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 \$9,219,360 for its proportionate share of the MPERS 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

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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 0.0356 percent, which was a decrease of 0.0004 percent from its proportion measured as of September 30, 2016. At September 30, 2017, the total pension expense for the School District was \$957,655.

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Total to Amortize
Difference between expected and actual experience	\$ 80,123	\$ (45,237)	\$ 34,886
Changes in assumptions	1,010,054	-	1,010,054
Net difference between projected and actual earnings on pension plan investments	-	(440,746)	(440,746)
Changes in proportion and differences between employer contributions and proportionate share of contributions	88,431	(88,683)	(252)
Employer contributions subsequent to the measurement date	801,948	(361,850)	-
	<u>\$ 1,980,556</u>	<u>\$ (936,516)</u>	<u>\$ 603,942</u>

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year 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 (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future Pension Expenses)	
Plan Year Ending September 30,	Amount
2018	\$ 170,011
2019	326,463
2020	138,197
2021	(30,729)
	<u>\$ 603,942</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, 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 Plan (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

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- 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.

Assumption changes as a result of an experience study for the period 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:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.00%	5.6%
Alternative Investment Pools	18.00%	8.7%
International Equity	16.00%	7.2%
Fixed Income Pools	10.50%	-0.1%
Real Estate and Infrastructure Pools	10.00%	4.2%
Absolute Return Pools	15.50%	5.0%
Short Term Investment Pools	2.00%	-0.9%
	100.00%	

*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

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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 the 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 higher:

1% Decrease (Non-Hybrid/Hybrid)* 6.5% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 7.5% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 8.5% / 8.0%
\$ 12,009,760	\$ 9,219,360	\$ 6,870,021

*The Basic plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.

Michigan Public School Employees’ Retirement System (MPSERS) Fiduciary Net Position

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

Payables to the Michigan Public School Employees’ Retirement System (MPSERS)

There were no significant payables to the pension plan that are not ordinary accruals to the School District.

Note 11 - Postemployment Benefits Other Than Pensions (OPEB)

Plan Description

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

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

The System’s health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees’ Retirement Act (1980 PA 300 as amended).

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

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

Benefits Provided

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of

Beal City Public Schools
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June 30, 2018

Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

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

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

Contributions

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

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

Pension Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.0%	5.91%
Personal Healthcare Fund (PHF)	0.0%	5.69%

Required contributions to the OPEB plan from the School District were \$276,771 for the year ended September 30, 2017.

Beal City Public Schools
Notes to the Financial Statements
June 30, 2018

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 \$3,148,117 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 0.0355 percent, which was the same percentage as its proportion measured as of September 30, 2016. At September 30, 2017, the total OPEB expense for the School District was \$210,588.

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	Total to Amortize
Difference between expected and actual experience	\$ -	\$ (33,518)	\$ (33,518)
Net difference between projected and actual earnings on OPEB plan investments	-	(72,911)	(72,911)
Changes in proportion and differences between employer contributions and proportionate share of contributions	81	-	81
Employer contributions subsequent to the measurement date	190,004	-	-
	<u>\$ 190,085</u>	<u>\$ (106,429)</u>	<u>\$ (106,348)</u>

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

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future OPEB Expenses)	
Plan Year Ending September 30,	Amount
2018	\$ (25,701)
2019	(25,701)
2020	(25,701)
2021	(25,701)
2022	(3,544)
	<u>\$ (106,348)</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, 2016
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of Return: 7.5%

Beal City Public Schools
Notes to the Financial Statements
June 30, 2018

- Projected Salary Increases: 3.5 - 12.3%, including wage inflation at 3.5%
- Healthcare Cost Trend Rate: 7.5% Year 1 graded to 3.5% Year 12
- 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.

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.

Assumption changes as a result of an experience study for the period 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 OPEB 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: 5.4744

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 OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.00%	5.6%
Alternative Investment Pools	18.00%	8.7%
International Equity	16.00%	7.2%
Fixed Income Pools	10.50%	-0.1%
Real Estate and Infrastructure Pools	10.00%	4.2%
Absolute Return Pools	15.50%	5.0%
Short Term Investment Pools	2.00%	-0.9%
	100.00%	

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

Beal City Public Schools
Notes to the Financial Statements
June 30, 2018

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.

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 the 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 higher:

1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
\$ 3,687,355	\$ 3,148,117	\$ 2,690,473

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 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%
\$ 2,666,032	\$ 3,148,117	\$ 3,695,491

OPEB Plan Fiduciary Net Position

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

Payables to the OPEB Plan

There were no significant payables to the OPEB plan that are not ordinary accruals to the School District.

Note 12 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Beal City Public Schools
Notes to the Financial Statements
June 30, 2018

Note 13 - Adoption of New Accounting Standards

As indicated in Note 1, the School District has adopted Governmental Accounting Standards Board Statement 75. This required the School District to record their proportionate share of the net OPEB liability and OPEB expense. Previously, these amounts were not recorded on the School District's statements. The standards require this change to be applied retroactively. The impact of this change is to reduce beginning net position in the statement of activities as of July 1, 2017 by \$3,029,358, restating it from (\$3,834,645) to (\$6,864,003).

REQUIRED SUPPLEMENTARY INFORMATION

Beal City Public Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Revenues				
Local sources	\$ 352,688	\$ 543,834	\$ 543,892	\$ 58
State sources	5,771,499	5,881,141	5,874,909	(6,232)
Federal sources	58,424	75,974	75,984	10
Interdistrict sources	279,406	267,162	267,161	(1)
Total revenues	<u>6,462,017</u>	<u>6,768,111</u>	<u>6,761,946</u>	<u>(6,165)</u>
Expenditures				
Instruction				
Basic programs	3,344,780	3,280,178	3,274,687	(5,491)
Added needs	891,576	917,904	910,210	(7,694)
Supporting services				
Pupil	108,002	108,323	108,014	(309)
Instructional staff	135,212	128,150	127,317	(833)
General administration	232,601	216,501	215,384	(1,117)
School administration	373,777	347,972	347,292	(680)
Business	147,153	142,941	142,328	(613)
Operations and maintenance	473,068	425,914	421,851	(4,063)
Pupil transportation services	431,023	368,814	361,916	(6,898)
Central	136,928	141,754	139,188	(2,566)
Athletics	297,798	259,991	259,018	(973)
Community services	6,701	6,687	6,696	9
Capital outlay	93,291	126,939	92,757	(34,182)
Debt service				
Principal	11,159	10,893	10,833	(60)
Interest and fiscal charges	1,628	1,894	1,869	(25)
Total expenditures	<u>6,684,697</u>	<u>6,484,855</u>	<u>6,419,360</u>	<u>(65,495)</u>

Beal City Public Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Excess (deficiency) of revenues over expenditures	\$ (222,680)	\$ 283,256	\$ 342,586	\$ 59,330
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	14,762	14,761	(1)
Transfers in	21,000	15,000	15,000	-
Transfers out	(150,000)	(165,000)	(179,749)	14,749
Total other financing sources (uses)	(129,000)	(135,238)	(149,988)	14,748
Net change in fund balance	(351,680)	148,018	192,598	74,078
Fund balance - beginning	1,662,272	1,662,272	1,662,272	-
Fund balance - ending	<u>\$ 1,310,592</u>	<u>\$ 1,810,290</u>	<u>\$ 1,854,870</u>	<u>\$ 74,078</u>

Beal City Public Schools
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th, of Each June Fiscal Year)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. Reporting unit's proportion of net pension liability (%)	0.04%	0.04%	0.04%	0.04%						
B. Reporting unit's proportionate share of net pension liability	\$ 9,219,360	\$ 8,977,721	\$ 8,629,135	\$ 7,800,937						
C. Reporting unit's covered-employee payroll	\$ 2,942,127	\$ 3,078,471	\$ 2,946,941	\$ 3,026,438						
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered- employee payroll	313.36%	291.63%	292.82%	257.76%						
E. Plan fiduciary net position as a percentage of total pension liability	64.21%	63.27%	63.17%	66.20%						

Note Disclosures

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2017.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2017.

Beal City Public Schools
Required Supplementary Information
Schedule of the School District's Pension Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

	For the Years Ended June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. Statutorily required contributions	\$ 882,822	\$ 552,877	\$ 570,419	\$ 727,215						
B. Contributions in relation to statutorily required contributions	882,822	552,877	570,419	727,215						
C. Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -						
D. Reporting unit's covered- employee payroll	\$ 2,927,591	\$ 2,943,844	\$ 2,962,315	\$ 2,956,960						
E. Contributions as a percentage of covered-employee payroll	30.16%	18.78%	19.26%	24.59%						

Beal City Public Schools
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net OPEB Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th, of Each June Fiscal Year)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. Reporting unit's proportion of net OPEB liability (%)	0.04%									
B. Reporting unit's proportionate share of net OPEB liability	\$ 3,148,117									
C. Reporting unit's covered-employee payroll	\$ 2,942,127									
D. Reporting unit's proportionate share of net OPEB liability as a percentage of its covered- employee payroll	107.00%									
E. Plan fiduciary net position as a percentage of total OPEB liability	36.39%									

Note Disclosures

Changes of benefit terms: There were no changes in benefit terms in plan fiscal year 2017.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2017.

Beal City Public Schools
Required Supplementary Information
Schedule of the School District's OPEB Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

	For the Years Ended June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. Statutorily required contributions	\$ 215,219									
B. Contributions in relation to statutorily required contributions	<u>215,219</u>									
C. Contribution deficiency (excess)	<u>\$ -</u>									
D. Reporting unit's covered- employee payroll	\$ 2,927,591									
E. Contributions as a percentage of covered-employee payroll	7.35%									

OTHER SUPPLEMENTARY INFORMATION

Beal City Public Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2018

	Special Revenue Fund	Capital Projects Fund	Debt Service Funds				Total Nonmajor Governmental Funds
	Food Services	Public Improvement	2012	2014	2012 SBLF Refunding	2017	
Assets							
Cash	\$ 108,976	\$ 272,942	\$ 33,146	\$ 32,257	\$ 30,697	\$ 37,972	\$ 515,990
Due from other governmental units	2,203	-	-	-	-	-	2,203
Inventory	1,496	-	-	-	-	-	1,496
Total assets	\$ 112,675	\$ 272,942	\$ 33,146	\$ 32,257	\$ 30,697	\$ 37,972	\$ 519,689
Liabilities							
Accounts payable	\$ 3,597	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,597
Due to other funds	\$ 15,738	\$ 7,635	\$ -	\$ -	\$ -	\$ -	\$ 23,373
Unearned revenue	5,350	-	-	-	-	-	5,350
Total liabilities	24,685	7,635	-	-	-	-	32,320
Fund Balance							
Non-spendable							
Inventory	1,496	-	-	-	-	-	1,496
Restricted for							
Food service	86,494	-	-	-	-	-	86,494
Debt service	-	-	33,146	32,257	30,697	37,972	134,072
Assigned							
Capital projects	-	265,307	-	-	-	-	265,307
Total fund balance	87,990	265,307	33,146	32,257	30,697	37,972	487,369
Total liabilities and fund balance	\$ 112,675	\$ 272,942	\$ 33,146	\$ 32,257	\$ 30,697	\$ 37,972	\$ 519,689

Beal City Public Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

	Special Revenue Fund	Capital Projects Fund	Debt Service Funds				Total Nonmajor Governmental Funds
	Food Services	Public Improvement	2012	2014	2012 SBLF Refunding	2017	
Revenues							
Local sources	\$ 134,919	\$ 392	\$ 83,613	\$ 266,536	\$ 156,165	\$ 121,808	\$ 763,433
State sources	25,964	-	141	451	264	-	26,820
Federal sources	132,065	-	-	-	-	-	132,065
Total revenues	292,948	392	83,754	266,987	156,429	121,808	922,318
Expenditures							
Current							
Education							
Food services	280,721	-	-	-	-	-	280,721
Capital outlay	1,314	95,356	-	-	-	-	96,670
Debt service							
Principal	-	-	78,000	280,000	153,000	75,000	586,000
Interest and other expenditures	-	-	26,426	25,620	25,044	8,836	85,926
Total expenditures	282,035	95,356	104,426	305,620	178,044	83,836	1,049,317
Excess (deficiency) of revenues over expenditures	10,913	(94,964)	(20,672)	(38,633)	(21,615)	37,972	(126,999)
Other Financing Sources (Uses)							
Transfers in	-	179,749	-	-	-	-	179,749
Transfers out	(15,000)	-	-	-	-	-	(15,000)
Total other financing sources (uses)	(15,000)	179,749	-	-	-	-	164,749
Net change in fund balance	(4,087)	84,785	(20,672)	(38,633)	(21,615)	37,972	37,750
Fund balance - beginning	92,077	180,522	53,818	70,890	52,312	-	449,619
Fund balance - ending	\$ 87,990	\$ 265,307	\$ 33,146	\$ 32,257	\$ 30,697	\$ 37,972	\$ 487,369

Beal City Public Schools
Other Supplementary Information
General Fund
Comparative Balance Sheet
June 30, 2018

	2018	2017
Assets		
Cash	\$ 1,415,479	\$ 1,085,902
Taxes receivable	805	-
Accounts receivable	83	23,109
Due from other funds	15,738	2,763
Due from other governmental units	1,094,732	1,173,378
Prepaid items	35,129	31,199
	<u>\$ 2,561,966</u>	<u>\$ 2,316,351</u>
Liabilities		
Accounts payable	\$ 22,014	\$ 9,560
Accrued expenditures	290,991	315,104
Accrued salaries payable	323,811	326,658
Unearned revenue	70,280	2,757
	<u>707,096</u>	<u>654,079</u>
Fund Balance		
Non-spendable		
Prepaid items	35,129	31,199
Restricted for		
Grants	136,947	107,465
Assigned		
Future fiscal year budget	201,751	351,680
Unassigned	1,481,043	1,171,928
	<u>1,854,870</u>	<u>1,662,272</u>
Total fund balance	<u>\$ 2,561,966</u>	<u>\$ 2,316,351</u>
Total liabilities and fund balance	<u>\$ 2,561,966</u>	<u>\$ 2,316,351</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Revenues Compared to Budget
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue from local sources				
Property tax levy	\$ 251,168	\$ 254,793	\$ 255,598	\$ 805
Tuition	1,000	2,400	1,350	(1,050)
Transportation fees	2,400	5,412	5,658	246
Earnings on investments	2,120	5,140	5,411	271
Student activities	61,500	66,323	66,695	372
Other local revenues	34,500	209,766	209,180	(586)
	<u>352,688</u>	<u>543,834</u>	<u>543,892</u>	<u>58</u>
Total revenues from local sources				
Revenues from state sources				
Grants - unrestricted	4,985,911	5,077,553	5,077,557	4
Grants - restricted	785,588	803,588	797,352	(6,236)
	<u>5,771,499</u>	<u>5,881,141</u>	<u>5,874,909</u>	<u>(6,232)</u>
Total revenues from state sources				
Revenues from federal sources				
Grants	58,424	75,974	75,984	10
Interdistrict sources				
ISD collected millage	279,406	267,162	267,161	(1)
Other financing sources				
Proceeds from sale of capital assets	-	14,762	14,761	(1)
Transfers in	21,000	15,000	15,000	-
	<u>21,000</u>	<u>29,762</u>	<u>29,761</u>	<u>(1)</u>
Total other financing sources				
Total revenue and other financing sources				
	<u>\$ 6,483,017</u>	<u>\$ 6,797,873</u>	<u>\$ 6,791,707</u>	<u>\$ (6,166)</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Basic program - elementary				
Salaries	\$ 947,058	\$ 951,160	\$ 951,155	\$ (5)
Employee benefits	700,809	728,543	723,347	(5,196)
Purchased services	73,271	46,438	46,438	-
Supplies and materials	20,906	20,739	20,718	(21)
Other	-	1,500	1,500	-
Total elementary	<u>1,742,044</u>	<u>1,748,380</u>	<u>1,743,158</u>	<u>(5,222)</u>
Basic program - high school				
Salaries	829,855	804,475	804,370	(105)
Employee benefits	579,053	564,810	562,869	(1,941)
Purchased services	118,666	103,990	103,895	(95)
Supplies and materials	68,412	50,601	52,473	1,872
Other	6,750	7,922	7,922	-
Total high school	<u>1,602,736</u>	<u>1,531,798</u>	<u>1,531,529</u>	<u>(269)</u>
Added needs - special education				
Salaries	227,647	226,394	226,356	(38)
Employee benefits	163,205	169,094	167,816	(1,278)
Purchased services	60,682	52,089	52,088	(1)
Supplies and materials	7,700	2,107	2,040	(67)
Total special education	<u>459,234</u>	<u>449,684</u>	<u>448,300</u>	<u>(1,384)</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Added needs - compensatory education				
Salaries	\$ 77,245	\$ 82,085	\$ 79,622	\$ (2,463)
Employee benefits	55,300	61,940	59,581	(2,359)
Purchased services	32,968	31,220	31,197	(23)
Supplies and materials	2,000	3,623	2,272	(1,351)
	<u>167,513</u>	<u>178,868</u>	<u>172,672</u>	<u>(6,196)</u>
Added needs - career and technical education				
Salaries	34,586	35,296	35,293	(3)
Employee benefits	20,443	20,268	20,193	(75)
Purchased services	300	590	586	(4)
Supplies and materials	8,500	8,847	8,815	(32)
Other	201,000	224,351	224,351	-
	<u>264,829</u>	<u>289,352</u>	<u>289,238</u>	<u>(114)</u>
Total compensatory education				
Total career and technical education				

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil - guidance services				
Salaries	\$ 58,443	\$ 58,146	\$ 57,943	\$ (203)
Employee benefits	47,791	48,396	48,290	(106)
Supplies and materials	150	-	-	-
Total guidance services	<u>106,384</u>	<u>106,542</u>	<u>106,233</u>	<u>(309)</u>
Pupil - speech services				
Purchased services	150	-	-	-
Pupil - other support services				
Salaries	1,000	1,203	1,203	-
Employee benefits	468	578	578	-
Total other pupil support services	<u>1,468</u>	<u>1,781</u>	<u>1,781</u>	<u>-</u>
Instructional staff - improvement of education				
Salaries	3,000	1,945	1,945	-
Employee benefits	1,338	937	934	(3)
Purchased services	17,100	11,925	11,389	(536)
Supplies and materials	200	-	-	-
Total improvement of education	<u>21,638</u>	<u>14,807</u>	<u>14,268</u>	<u>(539)</u>
Instructional staff - educational media services				
Purchased services	18,273	17,948	17,707	(241)
Supplies and materials	786	404	373	(31)
Total educational media services	<u>19,059</u>	<u>18,352</u>	<u>18,080</u>	<u>(272)</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Instructional staff - technology assisted instruction				
Salaries	\$ 40,780	\$ 40,940	\$ 40,940	\$ -
Employee benefits	34,735	35,376	35,357	(19)
Purchased services	8,000	8,478	8,476	(2)
Other	1,000	20	19	(1)
	<u>84,515</u>	<u>84,814</u>	<u>84,792</u>	<u>(22)</u>
Instructional staff - academic student assessment				
Purchased services	9,000	10,177	10,177	-
Supplies and materials	1,000	-	-	-
	<u>10,000</u>	<u>10,177</u>	<u>10,177</u>	<u>-</u>
General administration - board of education				
Purchased services	23,200	19,755	19,229	(526)
Supplies and materials	15,000	6,200	6,199	(1)
Other	13,500	11,335	11,043	(292)
	<u>51,700</u>	<u>37,290</u>	<u>36,471</u>	<u>(819)</u>
General administration - executive administration				
Salaries	106,358	106,358	106,358	-
Employee benefits	71,043	68,703	68,643	(60)
Purchased services	500	500	500	-
Supplies and materials	3,000	3,600	3,392	(208)
Other	-	50	20	(30)
	<u>180,901</u>	<u>179,211</u>	<u>178,913</u>	<u>(298)</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
School administration - office of the principal				
Salaries	\$ 209,581	\$ 175,733	\$ 175,331	\$ (402)
Employee benefits	156,146	137,929	138,341	412
Purchased services	2,300	29,560	29,585	25
Supplies and materials	3,000	1,950	1,487	(463)
Other	1,550	1,800	1,553	(247)
Total office of the principal	<u>372,577</u>	<u>346,972</u>	<u>346,297</u>	<u>(675)</u>
School administration - other				
Supplies and materials	<u>1,200</u>	<u>1,000</u>	<u>995</u>	<u>(5)</u>
Business - fiscal services				
Salaries	54,627	59,834	59,855	21
Employee benefits	49,426	52,381	52,299	(82)
Purchased services	18,400	8,235	8,133	(102)
Supplies and materials	50	50	-	(50)
Other	800	400	398	(2)
Total fiscal services	<u>123,303</u>	<u>120,900</u>	<u>120,685</u>	<u>(215)</u>
Business - internal services				
Purchased services	<u>17,000</u>	<u>16,200</u>	<u>15,855</u>	<u>(345)</u>
Business - other				
Purchased services	6,150	4,606	4,606	-
Other	700	1,235	1,182	(53)
Total other business	<u>6,850</u>	<u>5,841</u>	<u>5,788</u>	<u>(53)</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Operations and maintenance - operating building services				
Salaries	\$ 129,967	\$ 130,392	\$ 129,968	\$ (424)
Employee benefits	89,732	92,022	92,023	1
Purchased services	160,569	128,375	127,506	(869)
Supplies and materials	91,100	74,025	71,301	(2,724)
Other	1,700	1,100	1,053	(47)
Total operating building services	<u>473,068</u>	<u>425,914</u>	<u>421,851</u>	<u>(4,063)</u>
Pupil transportation services				
Salaries	121,593	107,897	107,896	(1)
Employee benefits	174,118	147,228	147,242	14
Purchased services	87,262	82,196	78,277	(3,919)
Supplies and materials	47,800	31,353	28,361	(2,992)
Other	250	140	140	-
Total transportation services	<u>431,023</u>	<u>368,814</u>	<u>361,916</u>	<u>(6,898)</u>
Central - communication services				
Salaries	-	1,932	1,932	-
Employee benefits	-	922	921	(1)
Purchased services	18,000	15,138	14,838	(300)
Total communication services	<u>18,000</u>	<u>17,992</u>	<u>17,691</u>	<u>(301)</u>
Central - staff/personnel services				
Salaries	29,435	29,435	29,435	-
Employee benefits	23,113	23,435	23,419	(16)
Purchased services	15,800	15,953	15,290	(663)
Other	1,500	755	804	49
Total staff/personnel services	<u>69,848</u>	<u>69,578</u>	<u>68,948</u>	<u>(630)</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Central - support services technology				
Salaries	\$ 10,196	\$ 10,235	\$ 10,235	\$ -
Employee benefits	8,684	8,844	8,839	(5)
Purchased services	29,500	35,000	33,409	(1,591)
Supplies and materials	400	100	62	(38)
Other	300	5	4	(1)
Total support services technology	<u>49,080</u>	<u>54,184</u>	<u>52,549</u>	<u>(1,635)</u>
Athletic activities				
Salaries	107,316	84,560	84,436	(124)
Employee benefits	55,927	48,514	48,207	(307)
Purchased services	106,860	104,543	104,582	39
Supplies and materials	13,750	8,699	8,316	(383)
Other	13,945	13,675	13,477	(198)
Total athletic activities	<u>297,798</u>	<u>259,991</u>	<u>259,018</u>	<u>(973)</u>
Community services - non-public school pupils				
Salaries	3,600	2,544	2,544	-
Employee benefits	2,651	1,629	1,628	(1)
Purchased services	450	2,514	2,524	10
Total non-public school pupils	<u>6,701</u>	<u>6,687</u>	<u>6,696</u>	<u>9</u>

Beal City Public Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Capital outlay				
Basic program - elementary	\$ 26,000	\$ 2,057	\$ 2,056	\$ (1)
Basic program - high school	3,000	2,150	2,050	(100)
Added needs - special education	-	1,500	1,500	-
Added needs - compensatory education	2,500	-	-	-
Instructional staff - technology assisted instruction	21,137	52,586	33,236	(19,350)
General administration - executive administration	-	500	495	(5)
Business - fiscal services	-	4,107	4,107	-
Operations and maintenance - operating building services	10,529	16,219	16,129	(90)
Operations and maintenance - security services	14,749	14,749	-	(14,749)
Central - support services technology	5,000	7,000	6,790	(210)
Athletics	10,180	26,071	26,394	323
Other support services	196	-	-	-
Total capital outlay	<u>93,291</u>	<u>126,939</u>	<u>92,757</u>	<u>(34,182)</u>
Debt service				
Principal	11,159	10,893	10,833	(60)
Interest and other expenditures	1,628	1,894	1,869	(25)
Total debt service	<u>12,787</u>	<u>12,787</u>	<u>12,702</u>	<u>(85)</u>
Other financing uses				
Transfers out	150,000	165,000	179,749	14,749
Total expenditures and financing uses	<u>\$ 6,834,697</u>	<u>\$ 6,649,855</u>	<u>\$ 6,599,109</u>	<u>\$ (50,746)</u>

Beal City Public Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2018

Year Ending June 30,	2017	2014	2012 Series A	2012 Series B	Total
2019	\$ 25,000	\$ 260,000	\$ 77,000	\$ 198,000	\$ 560,000
2020	15,000	240,000	81,000	240,000	576,000
2021	15,000	380,000	80,000	129,000	604,000
2022	135,000	-	79,000	-	214,000
2023	135,000	-	77,000	-	212,000
2024	130,000	-	76,000	-	206,000
2025	130,000	-	74,000	-	204,000
2026	130,000	-	73,000	-	203,000
2027	120,000	-	71,000	-	191,000
Total	<u>\$ 835,000</u>	<u>\$ 880,000</u>	<u>\$ 688,000</u>	<u>\$ 567,000</u>	<u>\$ 2,970,000</u>
Principal payments due the first day of	May	May	May	May	
Interest payments due the first day of	May and November	May and November	May and November	May and November	
Interest rate	1.20% - 2.60%	2.00% - 2.60%	3.45%	3.25% - 3.95%	
Original issue	<u>\$ 910,000</u>	<u>\$ 2,110,000</u>	<u>\$ 1,157,000</u>	<u>\$ 1,009,000</u>	



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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

Independent Auditors' Report

Management and the Board of Education
Beal City Public Schools
Mt. Pleasant, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Beal City Public Schools as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Beal City Public Schools' basic financial statements, and have issued our report thereon dated October 8, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Beal City Public Schools' 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 Beal City Public Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Beal City Public Schools' 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Beal City Public Schools' 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.

Yeo & Yeo, P.C.

Alma, Michigan
October 8, 2018



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October 8, 2018

Management and the Board of Education
Beal City Public Schools
Mt. Pleasant, Michigan

We have completed our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Beal City Public Schools as of and for the year ended June 30, 2018, and have issued our report dated October 8, 2018. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated April 17, 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 Note 1 of the financial statements. The School District has adopted the new Governmental Accounting Standards Board Statements as noted in the notes to the financial statements, effective July 1, 2017.

We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement 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 Beal City Public Schools' financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Net OPEB liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Management's estimate of the retirement incentive payable is based on the number of teachers employed by the School District at year end, along with an estimated number of years until retirement. These factors, along with the incentive amount per the contract are used to determine the present value of the estimate using a discount rate.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole and free from bias.

Disclosures in the financial statements are neutral, consistent and clear.

Accounting Standards and Regulatory Updates

Accounting Standards

The Governmental Accounting Standards Board has released the following Statements:

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The criteria generally is on (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 87, *Leases* increases the usefulness of the District's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the District's leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the District's financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities districts should include when disclosing information related to debt. It 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. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It 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 statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

The School District is evaluating the impact the above pronouncements will have on its financial reporting.

Regulatory and Other Updates

Cybersecurity Posture

Cybersecurity posture, an overall measure of cybersecurity strength, is more prevalent than ever as organizations continue to face cybersecurity risks. Billions of emails are sent every day, some of which contain attachments with malicious files or malicious embedded links aimed at negatively impacting unsuspecting organizations. A recent study showed as many as four out of five U.S. companies have suffered from an attack. Not only can a successful attack cost thousands of dollars and put a strain on IT resources while remediation efforts are underway, but sensitive information may be breached.

Risk assessment is a first step in mitigating cybersecurity risks and improving your School District's overall cybersecurity posture. The National Institute of Standards and Technology published *Framework for Improving Critical Infrastructure Cybersecurity*, which "enables organizations, regardless of size, degree of cybersecurity risk, or cybersecurity sophistication, to apply the principles and best practices of risk management to improving the security and resilience of critical infrastructure." The framework is designed to cover five areas including identification, protection, detection, responsiveness and recovery. The publication can be found at www.nist.gov.

Placing significant emphasis on evaluating your School District's cybersecurity posture, and channeling sufficient resources towards proper risk assessment, implementation, and education will reduce the likelihood of a cybersecurity threat, and help lessen the impact of a breach.

Uniform Guidance – Implementation of Federal Grant Procurement Standards

In May 2017, the federal government granted an additional one-year delay for implementation of the procurement standards under the Uniform Guidance. The grace period now extends through December 25, 2017. Therefore entities with fiscal years beginning on or after December 26, 2017 must have procurement standards, for federal expenditures, that meet the more stringent requirements of 2 CFR 200.317 to 326. For school districts, it will apply to fiscal year 2019 and therefore, must be in place starting July 1, 2018. It is imperative that your procurement policies – whatever they are documented as – be followed. The Uniform Guidance and the old guidance in the OMB Circulars provide minimum requirements that must be covered by an entity's procurement policies. If an entity's policies are stricter than the federal rules, the entity policies still must be followed. As you adopt new procurement policies, we also recommend that you consider separate policies for federal and non-federal expenditures to ease the administrative burden of certain federal requirements.

Michigan Department of Education has put out sample procedures covering all the required items, including procurement, on their website.

Fiscal Year (FY) 2019 School Aid

The School Aid budget for FY 2019 was signed in June, 2018. Following are some significant highlights of the bill:

- The per pupil Foundation Grants for FY 2019 will increase by a range of \$120 to \$240 using the "2X formula." The increase will be added to the FY 2018 foundation grant resulting in the lowest foundation for FY 2018 being \$7,871 and the maximum state guaranteed foundation being \$8,409.
- The Pupil Membership Blend will remain at 90% of the current school year October count and 10% of the prior school year February count.
- The Section 31a At-Risk funding is maintained at \$499,000,000. Eligibility expanded to include grades K-12, from K-3, and shall use resources to address early literacy and numeracy through an evidence-based framework that uses data-driven problem solving through a multi-tiered system of supports. Adds language that for schools in which more than 40% of pupils are identified as At-Risk, a district may use the funds it receives to implement schoolwide reforms that are guided by the district's comprehensive needs assessment and are included in the district improvement plan. Allows for up to 5% to be used for professional development.
- The per pupil funding under Section 20f will be equal to the per pupil funding in 2017-18.
- A New Section 31m has been created as a separate account to improve mental health and support services for K-12 pupils. A deposit of \$30 million has been allocated for this purpose.

- A new Section 54d appropriates \$5 million in grant funds for intermediate districts to provide pilot programs for children from birth to 3 years of age with developmental disability and/or delay.
- Section 147c has a MPERS rate cap funding set at \$1.03 billion, which is an increase of \$72 million. The rate cap is estimated at \$690 per pupil.
- Section 147e includes \$37.6 million allocated as a direct reimbursement for additional retirement costs for specific qualified participants due to PA 92 of 2017.

Budget Assumptions & Early Warning

Each school district that has a general fund balance less than 5% of total unrestricted general revenue for either of the 2015-2016 or 2016-2017 school fiscal years is required to submit budget assumptions to the Center for Educational Performance and Information (CEPI).

Uniform Budgeting and Accounting Act (UBAA)

The UBAA establishes budget and accounting requirements for local governments and school districts, including public school academies. It also establishes oversight requirements for MDE as well as the Michigan Attorney General. Material violations of the UBAA, including but not limited to General Fund deficits, should be reported as financial statement findings in the audit report. UBAA states that if it becomes apparent during the year that the probable revenues will be less than the budgeted revenues, the fiscal officer shall present recommendations to the legislative body which, if fiscal adopted, would prevent expenditures from exceeding available revenues for the fiscal year. UBAA states that an officer of the school district shall not incur expenditures against an appropriation account in excess of the amount appropriated by the board. Noncompliance includes, but is not limited to, over-expending the budget authorized by the board. MDE is analyzing the General Fund only, and at the total revenues, expenditures and financing sources (uses) levels, rather than at the line item level. MDE has stated a 0% tolerance for UBAA noncompliance.

Current Operating Expenditures (COE) for UAAL

Effective for the plan year ended September 30, 2019, the percentage change in Current Operating Expenditures (COE) from one year to the next will be used to adjust the payroll on which the UAAL rate is charged. FY 2017 (September) reported payroll will be adjusted by the percent change in COE from 2016 to 2017 to establish the FY19 adjusted payroll. The capped UAAL rate of 20.96% continues to be used in the calculation. ORS has put examples on their website to walk the school district through the calculation.

- UAAL contributions will no longer be calculated on member wages reported throughout the FY.
- This did not affect the 2018 fiscal year, but will impact the 2019 fiscal year.
- The FY 2019 payment process for contributions will be spread out over all Employer Statements in State FY 2019 (October 2018 through September 2019).

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 that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

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 the financial statements taken as a whole.

There were no uncorrected misstatements that were more than trivial.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report we had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other 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.

Emphasis of Matters in Independent Auditors' Report

Our report will include the following emphasis of matter paragraph:

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2018, the School District adopted GASB Statement no. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Reports

Other information that is required to be reported to you is included in the Independent Auditors' 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*. Please read all information included in that report to ensure you are aware of relevant information.

Report on Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, schedule of the school district's proportionate share of the net pension liability, schedule of the school district's pension contributions, schedule of the school district's proportionate share of the net OPEB liability, schedule of the school district's OPEB contributions, and budgetary comparison information, we 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 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.

Report on Other Supplementary Information

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

We discussed these matters with various personnel in the School District during the audit and with management. We would also be pleased to meet with you to discuss these matters at your convenience.

Restriction on Use

These communications are intended solely for the information and use of management, the Board of Education, and others within the School District, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Alma, Michigan