

CASS CITY PUBLIC SCHOOLS
Cass City, Michigan

Report on Financial Statements
(with required supplementary and
additional supplementary information)
Year Ended June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Cass City Public Schools
Cass City, Michigan 48726

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 Cass City Public Schools, as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the Cass City Public Schools' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cass City Public Schools as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 15 to the financial statements, Cass City Public Schools implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cass City Public Schools' basic financial statements. The additional supplementary information, as listed in the table of contents, including the schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 additional supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2018, on our consideration of the Cass 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Cass City Public Schools' 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 Cass City Public Schools' internal control over financial reporting and compliance.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CARO, MICHIGAN

October 18, 2018

Cass City Public Schools

Management's Discussion and Analysis

Cass City School District, a K-12 school district located in Tuscola, Sanilac and Huron Counties, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Cass City School District administration's discussion and analysis of the financial results for the fiscal years ended June 30, 2017 and June 30, 2018.

For the year ended June 30, 2018, Cass City Public Schools implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These changes are significant at the government-wide level.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

Fund Financial Statements

For the most part, the fund financial statements are comparable to prior years' financial statements. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue Funds, Debt Service Funds and Capital Projects Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements are calculated using full accrual accounting and more closely represent those presented by business and industry. All of the District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt of the District.

Cass City Public Schools
Management's Discussion and Analysis

Summary of Net Position

The following schedule summarizes the net position at fiscal years ended:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Assets		
Current assets	\$ 4,277,701	\$ 4,147,424
Capital assets	<u>8,430,586</u>	<u>8,785,568</u>
Total assets	<u>12,708,287</u>	<u>12,932,992</u>
Deferred Outflows of Resources		
Deferred charge on refunding, net of amortization	24,490	-
Related to other postemployment benefits	301,199	-
Related to pensions	<u>3,382,828</u>	<u>2,430,926</u>
Total deferred outflows of resources	<u>3,708,517</u>	<u>2,430,926</u>
Liabilities		
Other liabilities	1,972,000	1,915,057
Long-term liabilities	<u>21,906,517</u>	<u>17,627,044</u>
Total liabilities	<u>23,878,517</u>	<u>19,542,101</u>
Deferred Inflows of Resources		
Related to pensions	1,041,465	489,162
Related to other postemployment benefits	167,801	-
Related to state aid funding for pension and other postemployment benefits	<u>563,711</u>	<u>-</u>
Total deferred inflows of resources	<u>1,772,977</u>	<u>489,162</u>
Net Position		
Net investment in capital assets	6,216,860	5,701,632
Restricted for debt service	356,340	449,368
Unrestricted	<u>(15,807,890)</u>	<u>(10,818,345)</u>
Total net position	<u>\$ (9,234,690)</u>	<u>\$ (4,667,345)</u>

The 2017 figures have not been updated for the adoption of GASB 75.

Analysis of Financial Position

During the fiscal year ended June 30, 2018, the District's net position increased by \$567,454. A few of the more significant factors affecting net position during the year are discussed below.

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net position.

Cass City Public Schools
Management's Discussion and Analysis

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. The depreciation expense for the fiscal years ended June 30, 2018 and June 30, 2017 was \$389,078 and \$417,063.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2018, \$34,096 were capitalized and recorded as assets to the District. \$231,182 expenditures were capitalized for the year ended June 30, 2017. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets, disposal of assets, and the current year's depreciation is a decrease to capital assets in the amount of \$354,982 for the fiscal year ended June 30, 2018.

Results of Operations

For the fiscal year ended June 30, 2018 and June 30, 2017, the results of operations, on a District-wide basis, were:

	June 30, 2018		June 30, 2017	
	Amount	% of Total	Amount	% of Total
General Revenues				
Property taxes	\$ 1,671,170	14.69%	\$ 1,622,372	14.61%
Investment earnings	22,385	0.20%	8,260	0.07%
State sources	6,642,717	58.39%	6,566,317	59.13%
Transfers from other districts	43,786	0.38%	40,014	0.36%
Net book value of assets disposed	-	0.00%	5,500	0.05%
Other	147,112	1.29%	73,727	0.66%
Total general revenues	8,527,170	74.95%	8,316,190	74.88%
Program Revenues				
Charges for services	415,997	3.66%	395,002	3.56%
Operating grants	2,432,829	21.39%	2,393,834	21.56%
Total revenues	11,375,996	100.00%	11,105,026	100.00%
Expenses				
Instruction	6,474,946	59.91%	6,393,987	58.64%
Support services	3,080,091	28.50%	3,174,916	29.12%
Community services	165,628	1.53%	156,375	1.43%
Capital outlay	26,200	0.24%	41,717	0.38%
Food services	548,431	5.07%	565,693	5.19%
Interest on long-term debt	124,168	1.15%	153,375	1.41%
Unallocated depreciation expense	389,078	3.60%	417,063	3.83%
	10,808,542	100.00%	10,903,126	100.00%
Change in net position	\$ 567,454		\$ 201,900	

The 2017 figures have not been updated for the adoption of GASB 75.

Cass City Public Schools
Management's Discussion and Analysis

Analysis of Significant Revenues and Expenditures

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levies 17.9766 mills of property taxes for operations on non-homestead properties. According to Michigan law, the taxable levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2017-2018 fiscal year, the district levied \$867,636 non-homestead property taxes. This represented an increase of 4.45% from the prior year.

The following table summarizes the non-homestead property tax levies for operations for the past five years:

Fiscal Year	Non-homestead Tax Levy	% Increase (Decrease) from prior year
2017 - 2018	\$ 867,636	4.45%
2016 - 2017	830,662	1.58%
2015 - 2016	787,400	2.09%
2014 - 2015	771,277	0.88%
2013 - 2014	764,552	-1.97%

2. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 90% of the 2017 Fall count and 10% of the 2017 Spring count. For the 2017-2018 fiscal year, the District's foundation allowance was \$7,631 per student FTE, which was \$120 more than the amount received 2016-2017 fiscal year.

3. Student Enrollment

The following schedule compares actual blended student enrollment for the past five fiscal years:

Fiscal Year	Actual Blended Student FTE
2017 - 2018	981
2016 - 2017	983
2015 - 2016	1,009
2014 - 2015	1,049
2013 - 2014	1,058

Cass City Public Schools
Management's Discussion and Analysis

4. Operating Grants

The District funds a significant portion of its operations with appropriations. For the fiscal year ended June 30, 2018, federal, state and other grants accounted for \$2,432,829. This represents an increase of \$38,995 over the total grant sources received for the 2016-2017 fiscal year.

5. Interest Earnings

The District received interest on its investments in the amount of \$22,385 for the fiscal year ended June 30, 2018. Interest revenues increased compared to the prior fiscal year by \$14,125.

6. Comparative Expenditures

A comparison of the expenditures reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances is shown below.

<u>Expenditures</u>	<u>2017-2018 Fiscal Year</u>	<u>2016-2017 Fiscal Year</u>	<u>Increase (Decrease)</u>
Instruction	\$ 6,446,035	\$ 6,351,163	\$ 94,872
Supporting services	3,097,500	3,146,367	(48,867)
Community service activities	165,628	156,375	9,253
Capital outlay	26,200	41,717	(15,517)
Food service activities	548,431	565,693	(17,262)
Debt service	<u>816,276</u>	<u>739,840</u>	<u>76,436</u>
Total Expenditures	<u>\$ 11,100,070</u>	<u>\$ 11,001,155</u>	<u>\$ 98,915</u>

Cass City Public Schools
Management's Discussion and Analysis

General Fund Budgetary Highlights

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 its starting on July 1st. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30th.

For the 2017-2018 fiscal year, the district amended the general fund budget several times with the Board adopting the final changes in June 2018. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (negative)	% Variance
Total revenues	<u>\$9,646,889</u>	<u>\$ 9,916,877</u>	<u>\$10,053,021</u>	<u>\$ 136,144</u>	<u>1.37%</u>
Expenditures:					
Instruction	\$6,250,333	\$ 6,408,468	\$ 6,446,035	\$ (37,567)	-0.59%
Supporting services	3,071,700	3,157,595	3,097,500	60,095	1.90%
Community services	169,164	168,569	165,628	2,941	1.74%
Capital outlay	5,000	26,200	26,200	-	0.00%
Total expenditures	<u>\$9,496,197</u>	<u>\$ 9,760,832</u>	<u>\$ 9,735,363</u>	<u>\$ 25,469</u>	<u>0.26%</u>
Other Financing sources (uses):					
Sale of school property	\$ 4,000	\$ 7,700	\$ 7,781	\$ 81	1.05%
Transfers from other funds	-	3,300	3,370	70	2.12%
Transfers to other funds	-	(3,400)	(3,370)	30	-0.88%
Principal payments	(135,500)	(135,300)	(135,210)	90	-0.07%
Interest payment	(18,600)	(14,800)	(14,628)	172	-1.16%
Total other financings sources (uses)	<u>\$ (150,100)</u>	<u>\$ (142,500)</u>	<u>\$ (142,057)</u>	<u>\$ 443</u>	<u>-0.31%</u>

Capital Asset and Debt Administration

Capital Assets

By the end of the 2017-2018 fiscal year, the district had invested \$17,973,427 in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents a net decrease of \$225,102 over the prior fiscal year. Depreciation expense for the year amounted to \$389,078 bringing the accumulation to \$9,542,841 as of June 30, 2018.

Long-term Debt

At June 30, 2018, the District had \$2,394,670 in long-term debt outstanding, of which \$1,735,000 was bonded debt. During the fiscal year, the 2008 debt issue was refunded for the 2017 debt issue to take advantage of favorable interest rates. Overall, long-term debt decreased by \$869,993 over the amount outstanding at the close of the prior fiscal year.

Cass City Public Schools

Management's Discussion and Analysis

In May of 2018, voters of Tuscola, Huron, and Sanilac Counties approved Cass City Public Schools to issue \$8,680,000 in more than one bond series for the purpose of “remodeling, equipping and re-equipping and furnishing and refurbishing school buildings; acquiring, installing, equipping and re-equipping school buildings for instructional technology; purchasing school buses; and developing, improving and equipping playgrounds, athletic fields and sites” per the formal bond language. The first issuance of bonds designated School Building and Site Bonds in the principal sum of \$2,575,000 were sent out to bid in September. The purpose of the funds generated are to initially focus on security improvements at both buildings and a new HVAC system at the high school.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several areas that could have a major impact on the 2018-2019 fiscal year, and the near future.

While the State of Michigan has approved the student foundation allowance for 2018-2019 there are still expenses to the district that are beyond the control of the board of education and administration. Pension and health care costs continue to increase, as well as many other operating expenses. Compliance with the provisions of the Affordable Care Act continue to present challenges in securing part-time supporting roles.

Health insurance costs continue to rise. The district plans to continue to explore alternate insurance packages to give the district the most cost effective plan. School employees now reimburse the school district for amounts exceeding the Health Care Cap as set by the state.

Student enrollment projections continue to indicate a long-term decline. 2018-2019 fall numbers look to be projected with previous years declining enrollment. The decline in enrollment status makes it difficult to cover the anticipated increases in personnel costs and allocate requested resources to support the educational program. While the State's economy is recovering, it also presents issues filling teacher positions as well as subbing roles.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Chief Financial Officer, Cass City Public Schools, 4868 N. Seeger St, Cass City, Michigan, 48726 and telephone number (989) 912-1846.

BASIC FINANCIAL STATEMENTS

CASS CITY PUBLIC SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2018

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and cash equivalents	\$ 2,504,457
Receivables:	
Accounts receivable	92,903
Intergovernmental receivable	1,611,425
Prepaid expense	68,916
Capital assets not being depreciated	134,775
Capital assets, net of accumulated depreciation	8,295,811
TOTAL ASSETS	12,708,287
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding, net of amortization	24,490
Related to other postemployment benefits	301,199
Related to pensions	3,382,828
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,708,517
LIABILITIES	
Accounts payable	81,293
Accrued salaries & wages	496,995
Accrued payroll taxes	81,599
Accrued interest	20,961
Due to other governmental units	102,399
Accrued benefits	62,143
Accrued retirement	126,610
Notes payable	1,000,000
Noncurrent liabilities:	
Due within one year	728,905
Due in more than one year	1,665,765
Net other postemployment benefits liability	4,963,457
Net pension liability	14,548,390
TOTAL LIABILITIES	23,878,517
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	1,041,465
Related to other postemployment benefits	167,801
Related to state aid funding for pension and other postemployment benefits	563,711
TOTAL DEFERRED INFLOWS OF RESOURCES	1,772,977
NET POSITION	
Net investment in capital assets	6,216,860
Restricted for debt service	356,340
Unrestricted	(15,807,890)
TOTAL NET POSITION	\$ (9,234,690)

See notes to financial statements.

CASS CITY PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	PROGRAM REVENUES		GOVERNMENTAL ACTIVITIES
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Position
Governmental activities:				
Instruction	\$ 6,474,946	\$ 14,868	\$ 1,442,434	\$ (5,017,644)
Support services	3,080,091	62,908	618,186	(2,398,997)
Community services	165,628	172,308		6,680
Capital outlay	26,200			(26,200)
Food services	548,431	165,913	372,209	(10,309)
Interest and fees on long-term debt	124,168		-	(124,168)
Unallocated depreciation	389,078			(389,078)
Total governmental activities	\$ 10,808,542	\$ 415,997	\$ 2,432,829	(7,959,716)
General revenues:				
Property taxes, levied for general purposes				895,977
Property taxes, levied for debt service				775,193
State sources - unrestricted				6,642,717
Investment revenue				22,385
Transfer from other districts				43,786
Miscellaneous				147,112
Total general revenue				8,527,170
Change in net position				567,454
Net position, beginning of year, as restated				(9,802,144)
Net position, end of year				\$ (9,234,690)

See notes to financial statements.

CASS CITY PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>GENERAL FUND</u>	<u>FOOD SERVICE</u>	<u>2008 DEBT SERVICE</u>	<u>2017 DEBT SERVICE</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 2,031,685	\$ 117,481	\$ -	\$ 355,291	\$ 2,504,457
Receivables:					
Accounts receivable	82,116	2,638	-	8,149	92,903
Intergovernmental receivable	1,607,598	3,827	-	-	1,611,425
Prepaid expense	64,228	4,688	-	-	68,916
Due from other funds	4,237	3,689	-	-	7,926
TOTAL ASSETS	<u>\$ 3,789,864</u>	<u>\$ 132,323</u>	<u>\$ -</u>	<u>\$ 363,440</u>	<u>\$ 4,285,627</u>
 <u>LIABILITIES AND FUND BALANCES</u>					
LIABILITIES:					
Accounts payable	\$ 71,006	\$ 10,287	\$ -	\$ -	\$ 81,293
Accrued interest	13,861	-	-	-	13,861
Accrued salaries & wages	495,756	1,239	-	-	496,995
Accrued payroll taxes	81,599	-	-	-	81,599
Accrued benefits	61,594	549	-	-	62,143
Accrued retirement	126,610	-	-	-	126,610
Due to other funds	3,689	4,237	-	-	7,926
Due to other governmental units	102,399	-	-	-	102,399
Notes payable	1,000,000	-	-	-	1,000,000
TOTAL LIABILITIES	<u>1,956,514</u>	<u>16,312</u>	<u>-</u>	<u>-</u>	<u>1,972,826</u>
FUND BALANCES:					
Nonspendable for prepaids	64,228	4,688	-	-	68,916
Restricted for debt service	-	-	-	363,440	363,440
Restricted for food service	-	111,323	-	-	111,323
Unassigned	1,769,122	-	-	-	1,769,122
TOTAL FUND BALANCES	<u>1,833,350</u>	<u>116,011</u>	<u>-</u>	<u>363,440</u>	<u>2,312,801</u>
TOTAL LIABILITIES & FUND BALANCES	<u>\$ 3,789,864</u>	<u>\$ 132,323</u>	<u>\$ -</u>	<u>\$ 363,440</u>	<u>\$ 4,285,627</u>

See notes to financial statements.

CASS CITY PUBLIC SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total Fund Balances - Governmental Funds \$ 2,312,801

Amounts reported for governmental activities in the statement of net position are different because:

Deferred outflows of resources-charges on refunding, net of amortization	24,490
Deferred outflows of resources-related to pensions	3,382,828
Deferred outflows of resources-related to other postemployment benefits	301,199
Deferred inflows of resources-related to pensions	(1,041,465)
Deferred inflows of resources-related to other postemployment benefits	(167,801)
Deferred inflows of resources-related to state pension funding and other postemployment benefit funding	(563,711)

Capital assets used in governmental activities are not financial resources and are not reported in the funds

Cost of capital assets	17,973,427
Accumulated depreciation	(9,542,841)

Long term liabilities are not due and payable in the current period and are not reported in the funds

Long term debt obligations	(2,213,726)
Compensated absences	(180,944)
Accrued interest is not included as a liability in governmental funds; it is recorded when paid	(7,100)
Net other postemployment benefit liability	(4,963,457)
Net pension liability	<u>(14,548,390)</u>

Net Position of Governmental Activities \$ (9,234,690)

See notes to financial statements.

CASS CITY PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	<u>GENERAL FUND</u>	<u>FOOD SERVICE</u>	<u>2008 DEBT SERVICE</u>	<u>2017 DEBT SERVICE</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES:					
Local sources					
Property Tax	\$ 895,977	\$ -	\$ 395,104	\$ 380,089	\$ 1,671,170
Interest income	20,506	1,070	600	209	22,385
Food sales	-	165,174	-	-	165,174
Other	366,052	739	-	-	366,791
Total local sources	<u>1,282,535</u>	<u>166,983</u>	<u>395,704</u>	<u>380,298</u>	<u>2,225,520</u>
State sources	8,042,422	25,679	-	-	8,068,101
Federal sources	660,915	346,530	-	-	1,007,445
Other transactions:					
Insurance reimbursements	23,363	-	-	-	23,363
Transfers from other districts	43,786	-	-	-	43,786
TOTAL REVENUES	<u>10,053,021</u>	<u>539,192</u>	<u>395,704</u>	<u>380,298</u>	<u>11,368,215</u>
EXPENDITURES:					
Instruction	6,446,035	-	-	-	6,446,035
Supporting services	3,097,500	-	-	-	3,097,500
Community services	165,628	-	-	-	165,628
Capital outlay	26,200	-	-	-	26,200
Food services	-	548,431	-	-	548,431
Debt service:					
Principal retirement	-	-	600,000	100,000	700,000
Interest	-	-	70,220	13,710	83,930
Other costs	-	-	-	32,346	32,346
TOTAL EXPENDITURES	<u>9,735,363</u>	<u>548,431</u>	<u>670,220</u>	<u>146,056</u>	<u>11,100,070</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	317,658	(9,239)	(274,516)	234,242	268,145
OTHER FINANCING SOURCES (USES):					
Sale of school property	7,781	-	-	-	7,781
Transfers from other funds	3,370	3,370	-	196,852	203,592
Transfers to other funds	(3,370)	(3,370)	(196,852)	-	(203,592)
Proceeds from bond refunding	-	-	-	1,835,000	1,835,000
Payments to escrow agent	-	-	-	(1,902,654)	(1,902,654)
Principal payments	(135,210)	-	-	-	(135,210)
Interest payments	(14,628)	-	-	-	(14,628)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(142,057)</u>	<u>-</u>	<u>(196,852)</u>	<u>129,198</u>	<u>(209,711)</u>
NET CHANGE IN FUND BALANCES	175,601	(9,239)	(471,368)	363,440	58,434
FUND BALANCES - BEGINNING OF YEAR	<u>1,657,749</u>	<u>125,250</u>	<u>471,368</u>	<u>-</u>	<u>2,254,367</u>
FUND BALANCES - END OF YEAR	<u>\$ 1,833,350</u>	<u>\$ 116,011</u>	<u>\$ -</u>	<u>\$ 363,440</u>	<u>\$ 2,312,801</u>

See notes to financial statements.

CASS CITY PUBLIC SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Net change in fund balances--governmental funds	\$ 58,434
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation:	
Depreciation expense	(389,078)
Capital outlay	34,096
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued interest payable at the beginning of the year	22,000
Accrued interest payable at the end of the year	(7,100)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on the net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items are as follows:	
Proceeds from bond refunding	(1,835,000)
Principal payments	835,210
Payments to escrow agent	1,902,654
Amortization of deferred amount on refunding	(8,164)
Accrued compensated absences are recorded in the statement of activities when incurred, but it is not recorded in the governmental funds until it is paid.	
Accrued compensated absences at the beginning of the year	180,727
Accrued compensated absences at the end of the year	(180,944)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Other postemployment benefit related items	304,740
Pension related items	213,590
Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension and other postemployment benefit contributions subsequent to the measurement period.	
State aid funding for pension and other postemployment benefits	<u>(563,711)</u>
Change in net position of governmental activities	<u><u>\$ 567,454</u></u>

See notes to financial statements.

CASS CITY PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2018

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 168,421
TOTAL ASSETS	<u>\$ 168,421</u>
<u>LIABILITIES</u>	
Due to student organizations	\$ 168,421
TOTAL LIABILITIES	<u>\$ 168,421</u>

See notes to financial statements.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

DESCRIPTION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. All fiduciary activities are reported only in the fund statements. *Governmental activities* normally are supported by taxes, and intergovernmental revenues.

REPORTING ENTITY:

Cass City Public Schools (the "District") is governed by the Cass City Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

BASIS OF PRESENTATION – GOVERNMENT-WIDE FINANCIAL STATEMENTS:

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements.

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

BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS:

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category – government and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

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

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

The *Debt Service Funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. The 2008 debt service fund closed as of June 30, 2018. The 2017 debt service fund remains.

OTHER NON-MAJOR FUNDS:

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

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

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in the fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING:

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

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

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

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

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end).

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

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

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

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

All other revenue items are generally considered to be measurable and available only when cash is received by the District.

The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

BUDGETARY INFORMATION:

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund. Capital projects funds are appropriated on a project-length basis. Other funds do not have appropriated budgets.

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

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

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

ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE:

1. Cash and cash equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

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

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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

3. Inventories and prepaid items

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

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

4. Capital assets

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

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

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

Buildings and additions	20 - 50 years
Land improvements	10 - 30 years
Machinery and equipment	5 - 20 years
Transportation equipment	5 - 15 years

5. Deferred outflows/inflows of resources

Deferred outflows:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The District has three items that qualify for reporting in this category. They are the deferred charge on refunding, pension and other postemployment benefits related items reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred outflow is recognized for pension and other postemployment benefit related items. These amounts are expensed in the plan year in which they apply.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Deferred inflows:

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

6. Defined benefit plan

For purposes of measuring the net pension and other postemployment benefit liability, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pension and other postemployment benefits expense, information about the fiduciary net position of the Michigan Public 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.

7. Net position flow assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

8. Fund balance flow assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of the resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The board of education is the highest level of decision-making authority for the District that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The board of education may also assign fund balances as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

REVENUES AND EXPENDITURES/EXPENSES:

1. Program revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements for a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property taxes

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

For the year ended June 30, 2018, the District levied the following amounts per \$1,000 of assessed valuation:

<u>FUND</u>	<u>MILLS</u>
General Fund:	
Non-Principle Residence Exemption (PRE)	17.9766
Commercial Personal Property	5.9766
Debt Service Fund:	
PRE, Non-PRE, Commercial Personal Property	3.00

3. Compensated absences

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

4. Long-term obligations

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

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

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE 2 – DEPOSIT AND INVESTMENTS:

As of June 30, 2018, the District had no investments as defined by generally accepted accounting principles.

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

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, the District did not have investments in commercial paper and corporate bonds.

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

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2018, \$2,335,849 of the District's bank balance of \$2,708,461 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying value on the books for deposits at the end of the year was \$2,672,878.

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

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

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

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

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

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

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

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

The District does not have any investments subject to the fair value measurement.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

The above amounts as previously reported in Note 2:

Deposits – including fiduciary funds of \$168,421	<u><u>\$2,672,878</u></u>
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The above amounts are reported in the financial statements as follows:

Cash - District wide	\$ 2,504,457
Cash - Fiduciary Funds	<u>168,421</u>
	<u><u>\$ 2,672,878</u></u>

NOTE 3 – INTERGOVERNMENTAL RECEIVABLES:

Intergovernmental receivables at June 30, 2018 consist of the following:

Governmental units:	
State aid	\$ 1,411,029
Federal revenue	140,005
Other	<u>60,391</u>
Total	<u><u>\$ 1,611,425</u></u>

Amounts due from other governmental units include amounts due from federal, state, and local sources for various projects and programs.

No allowance for doubtful accounts is considered necessary.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE 4 – CAPITAL ASSETS:

A summary of changes in the District's capital assets follows:

<u>Governmental Activities</u>	<u>BALANCE</u> <u>July 1, 2017</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>June 30, 2018</u>
Assets not being depreciated – land	\$ 134,775	\$ -	\$ -	\$ 134,775
Capital assets being depreciated:				
Land improvements	262,267			262,267
Building and additions	15,187,278	15,700		15,202,978
Machinery and equipment	1,590,510	18,396		1,608,906
Transportation equipment	1,023,699		(259,198)	764,501
Subtotal	<u>18,063,754</u>	<u>34,096</u>	<u>(259,198)</u>	<u>17,838,652</u>
Accumulated depreciation:				
Land improvements	(157,710)	(15,045)		(172,755)
Building and additions	(7,148,686)	(272,049)		(7,420,735)
Machinery and equipment	(1,350,939)	(30,509)		(1,381,448)
Transportation equipment	(755,626)	(71,475)	259,198	(567,903)
Subtotal	<u>(9,412,961)</u>	<u>(389,078)</u>	<u>259,198</u>	<u>(9,542,841)</u>
Net capital assets being depreciated:	<u>8,650,793</u>	<u>(354,982)</u>	<u>-</u>	<u>8,295,811</u>
Net governmental capital assets	<u>\$ 8,785,568</u>	<u>\$ (354,982)</u>	<u>\$ -</u>	<u>\$ 8,430,586</u>

Unallocated depreciation for the fiscal year ended June 30, 2018 amounted to \$389,078. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 – STATE AID ANTICIPATION NOTE PAYABLE:

At June 30, 2018, the District has a note payable outstanding of \$1,000,000. The note has an interest rate of 1.39% and matures August 20, 2018. Proceeds of the note were used to fund school operations. The note is secured by the full faith and credit of the District as well as pledged state aid.

<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2018</u>
<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE 6 - LONG-TERM DEBT:

The following is a summary of the long-term debt of the school district for the year ended June 30, 2018:

	DEBT
Balance payable - July 1, 2017	\$ 3,264,663
2008 Debt retirement payment	(2,470,000)
2017 Debt retirement (proceeds net of payments)	1,735,000
Increase in accumulated compensated absences	217
Energy program loan payment	(97,239)
Bus loan	(37,971)
Balance payable - June 30, 2018	2,394,670
Less current portion	(728,905)
Total due after one year	\$ 1,665,765

As of June 30, 2018, the school district had the following outstanding long-term debt:

	Beginning Balance	Additions	Payments	Ending Balance	Amount Due Within One Year
2008 Debt Retirement	\$2,470,000	\$ -	\$2,470,000	\$ -	\$ -
2017 Debt Retirement	-	1,835,000	100,000	1,735,000	590,000
Energy Program Loan	461,311		97,239	364,072	100,178
Bus Loan	152,625		37,971	114,654	38,727
Compensated absences	180,727	217	-	180,944	
Total	\$3,264,663	\$1,835,217	\$2,705,210	\$2,394,670	\$ 728,905

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account, assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2018, \$1,870,000 of bonds outstanding are considered defeased.

During the fiscal year ended June 30, 2018, the District issued general obligation bonds of \$1,835,000 with an interest rate of 1.14% to 1.24% to advance refund the District's outstanding 2008 bonds. The bonds mature at various times through May 2021. The general obligation bonds net proceeds were \$1,802,654 after paying issuance costs of \$32,346. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are paid in full. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's government-wide financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements by \$90,979, which resulted in an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$83,710.

The District has an Energy Program Loan for purchasing and installation of energy efficient building components. The interest rate is 3% and payments are due in semi-annually through October 2021.

In the fiscal year ending June 30, 2017, the District entered into a loan to purchase three used school buses with an interest rate at 1.99%, due in annual installments through June 2021.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

DEBT SERVICE REQUIREMENTS:

The annual requirements to amortize long-term debt outstanding as of June 30, 2018 are as follows:

<u>YEAR ENDED JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2019	\$ 728,905	\$ 38,911	\$ 767,816
2020	742,704	26,618	769,322
2021	687,755	13,715	701,470
2022	54,362	815	55,177
Accumulated Compensated Absences	180,944	-	180,944
TOTAL	<u>\$ 2,394,670</u>	<u>\$ 80,059</u>	<u>\$ 2,474,729</u>

A fund balance amount of \$363,440 is available in the debt service fund to service the general obligation debt.

Interest expense (all funds) for the year ended June 30, 2018 was \$83,930.

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES:

<u>RECEIVABLE FUND</u>		<u>PAYABLE FUND</u>	
General Fund	\$ 4,237	General Fund	\$ 3,689
Food Service Fund	3,689	Food Service Fund	4,237
Total	<u>\$ 7,926</u>	Total	<u>\$ 7,926</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 8 – RETIREMENT AND POSTEMPLOYMENT BENEFITS:

Plan Description - The Michigan Public School Employees' Retirement System (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. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/mpsers-cafr>.

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 option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

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 of the system.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Benefits Provided - Overall - Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPSERS is as follows:

<u>Plan Name</u>	<u>Plan Type</u>	<u>Plan Status</u>
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined Contribution	Open

Benefits Provided – Pension - 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. Retirement benefits for DB plan members are determined by final average compensation and years of service. 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.

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% -7.0%.

Pension Reform 2010 - On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus Plan members.

Pension Reform 2012 – On September 4, 2012 the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and 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 pension. Any changes to a member's pension 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 the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

An amount determined by the member's election of Option 1, 2, 3, or 4 described below.

Option 1 – Members voluntarily elected to increase their contributions to the pension fund as noted below, and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until terminate public school employment.

- Basic plan members: 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

Option 2 – Members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service their after would include a 1.25% person factor.

Option 3 – Members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Option 4 – Members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to the tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and final average compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus Plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

Final Average Compensation (FAC) - Average of highest 60 consecutive months (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected option 4, in which case the FAC is calculated at the transition date.

Pension Reform of 2017 - On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closes the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan is 6%. Further, the law provides that, under certain conditions, the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The law includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Benefits Provided – Other postemployment benefit (OPEB) - 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 health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members), the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus plan members), have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

Retiree Healthcare Reform of 2012 - 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 will be deposited into their 401(k) accounts.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Regular Retirement (no reduction factor for age)

Eligibility – A Basic plan member may retire at age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

Annual Amount – The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member’s pension is determined by their pension election under PA 300 of 2012.

Member Contributions

Depending on the plan selected, member contributions range from 0% - 7% for pension and 0% - 3% for other postemployment benefits. Plan members electing the defined contribution plan are not required to make additional contributions.

Employer Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under 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.

For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of September 30, 2016 valuation will be amortized over a 22-year period for fiscal 2017.

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

	Pension	Other Postemployment Benefit
October 1, 2016 - September 30, 2017	15.27% - 19.03%	5.69% - 5.91%
October 1, 2017 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%

The District’s pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately \$1,393,000, with \$1,382,000 specifically for the Defined Benefit Plan.

The District’s OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total. OPEB benefits were approximately \$341,000, with \$330,000 specifically for the Defined Benefit Plan.

These amounts, for both pension and OPEB benefit, include contributions funded from state revenue Section 147c restricted to fund the MPERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (100% for pension and 0% for OPEB).

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

Pension Liabilities

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

At June 30, 2018, the District reported a liability of \$14,548,390 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The Reporting Unit's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the Reporting Unit's proportion was 0.05614 and 0.05757 percent.

<u>MPSERS (Plan) Non-university employers:</u>	<u>September 30 2017</u>	<u>September 30 2016</u>
Total Pension Liability	\$ 72,407,218,688	\$ 67,917,445,078
Plan Fiduciary Net Position	\$ 46,492,967,573	\$ 42,968,263,308
Net Pension Liability	\$ 25,914,251,115	\$ 24,949,181,770
Proportionate Share	0.05614	0.05757
Net Pension Liability for the District	\$ 14,548,390	\$ 14,362,381

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

For the year ended June 30, 2018, the Reporting Unit recognized pension expense of \$1,608,118.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 1,593,892	\$ -
Net difference between projected and actual earnings on pension plan investments		(695,509)
Differences between expected and actual experience	126,435	(71,386)
Difference in employer contributions and proportionate share of contributions	404,743	(274,570)
Reporting Unit contributions subsequent to the measurement date	<u>1,257,758</u>	<u>-</u>
Total	<u>\$ 3,382,828</u>	<u>\$ (1,041,465)</u>

\$1,257,758, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

<u>Year ended September 30,</u>	<u>Amount</u>
2018	\$ 365,197
2019	584,867
2020	203,438
2021	(69,897)

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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

OPEB Liabilities

At June 30, 2018, the District reported a liability of \$4,963,457 for its proportionate share of the 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 date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017, the District's proportion was 0.05605 percent.

<u>MPERS (Plan) Non-university employees</u>	<u>September 30, 2017</u>
Total Other Postemployment Benefit Liability	\$ 13,920,945,991
Plan Fiduciary Net Position	\$ 5,065,474,948
Net Other Postemployment Benefit Liability	\$ 8,855,471,043
Proportionate Share	0.05605
Net Other Postemployment Benefit Liability for the District	\$ 4,963,457

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$332,046.

At June 30, 2018, the Reporting Unit 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
Net difference between projected and actual earnings on pension plan investments		\$ (114,955)
Difference between expected and actual experience		(52,846)
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 235	
Reporting Unit contributions subsequent to the measurement date	300,964	
Total	\$ 301,199	\$ (167,801)

\$300,964, reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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

Year ended September 30,	Amount
2018	\$ (40,497)
2019	(40,497)
2020	(40,497)
2021	(40,497)
2022	(5,578)

Actuarial Assumptions

Investment rate of return for Pension – 7.5% a year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus plan).

Investment rate of return for OPEB – 7.5% a year, compounded annually net of investment and administrative expenses.

Salary increases - The rate of pay increase used for individual members is 3.5%.

Inflation – 3.0%.

Mortality assumptions - RP2000 Combined healthy Life Mortality table, adjusted for mortality improvements to 2025 using projection scale BB (for men, 80% of the table rates were used and for women, 70% of the table rates were used).

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2015. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

The long-term expected rate of return on pension and other postemployment benefit plan investments - The rate was 7.5% (7% Pension Plus Plan), and other postemployment benefit rate was 7.5% net of investment and administrative expenses 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.

Cost of Living Pension Adjustments – 3.0% annual non-compounded for MIP members.

Healthcare cost trend rate for other postemployment benefit – 7.5% for year one and graded to 3.5% to year twelve.

Additional assumptions for other postemployment benefit only – Applies to individuals hired before September 4, 2012:

Opt Out Assumption – 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.

Survivor Coverage – 80% of male retirees and 67% of female retirees are assumed to have coverage continuing after the retiree’s death.

Coverage Election at Retirement – 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

The target asset allocation at September 30, 2017 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0%	5.6%
Private Equity Pools	18.0%	8.7%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	-0.1%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.0%
Short Term Investment Pools	2.0%	-0.9%
Total	100.0%	

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

Pension Discount rate - The discount rate used to measure the total pension liability was 7.5% (7% for Pension Plus Plan). This discount rate was based on the long-term 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 the discount rate assumed that plan members contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

OPEB Discount rate - The 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 school districts 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 project 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 net pension liability to changes in the discount rate - The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7% for Pension Plus Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>Pension</u>		
	<u>1% Decrease (6.5% / 6.0%)</u>	<u>Discount Rate (7.5% / 7.0%)</u>	<u>1% Increase (8.5% / 8.0%)</u>
Reporting Unit's proportionate share of the net pension liability	<u>\$ 18,951,713</u>	<u>\$ 14,548,390</u>	<u>\$ 10,841,072</u>

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Sensitivity of the net OPEB liability to changes in the discount rate -The following presents the Reporting Unit's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the Reporting Unit's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Other Postemployment Benefit		
	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Reporting Unit's proportionate share of the net other postemployment benefit liability	\$ 5,813,643	\$ 4,963,457	\$ 4,241,916

Sensitivity to the net OPEB liability to changes in the healthcare cost trend rates – The following presents the Reporting Unit's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate of 7.5% (decreasing to 3.5%), as well as what the Reporting Unit's proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Other Postemployment Benefit		
	1% Decrease (6.5% decreasing to 2.5%)	Healthcare cost trend rates (7.5% decreasing to 3.5%)	1% Increase (8.5% decreasing to 4.5%)
Reporting Unit's proportionate share of the net other postemployment benefit liability	\$ 4,203,381	\$ 4,963,457	\$ 5,826,470

Pension and OPEB Plan Fiduciary Net Position - Detailed information about the pension and OPEB's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2017 Comprehensive Annual Financial Report.

Payable to the Pension and OPEB Plan - At year end the School District is current on all required pension and other postemployment benefit plan payments. Amounts accrued at year end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payment for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL).

Other Information - On December 20, 2017, the Michigan Supreme Court affirmed that Public Act 75 of 2010 is unconstitutional as it substantially impaired the employee's employment contracts by involuntarily reducing the employee's wages by 3%. As a result, the funds collected pursuant to Public Act 75 before the effective date of Public Act 300 of 2012, must be refunded to the employees in accordance with the Michigan Court of Clams judgment on the aforementioned court case. Effective September 30, 2017, the 3% contribution collected under Public Act 75, which amounted to approximately \$554 million (including interest), was posted as a liability on the plan's CAFR report.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE 9 - OPERATING LEASES:

The School District entered into a 5-year lease agreement with Boss Solutions in August 2014 for the lease of new copy machines and printers for \$2,756 per month. At June 30, 2018, future lease payments under such leases are as follows:

June 30, 2019	\$ 33,072
June 30, 2020	5,512
	\$ 38,584

NOTE 10 - COMMITMENTS AND CONTINGENCIES:

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time although the District believes such amounts, if any, would be immaterial.

NOTE 11 - RISK MANAGEMENT:

The District is exposed to risk of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. With regard to injuries to employees, the District participates in an association of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The association is considered a public entity risk sharing pool. The District pays annual premiums to the association for its workers' disability compensation coverage. In the event the association's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the policy year may be subject to special assessment to make up the deficiency. The association maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required. This program is recorded in the general fund.

The District continues to carry commercial insurance for other risks of loss, including property and casualty, errors and omissions, fleet and employee health and accident insurance. No settlements have occurred in excess of coverage for this fiscal year or any of the prior three years.

NOTE 12 – TRANSFERS:

During the year, the food service fund transferred \$3,370 to the general fund for indirect cost reimbursement. The general fund transferred \$3,370 to the food service fund to reimburse the fund for uncollectible inactive student balances. The 2008 debt service fund transferred \$196,852 to the 2017 debt service fund to close the fund out.

NOTE 13 – TAX ABATEMENTS:

The District is required to disclose significant tax abatements as required by GASB Statement 77, *Tax Abatements*.

The District receives reduced property tax revenues as a result of Industrial Facilities Tax Exemptions granted by cities, villages, and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities. The property taxes abated for all funds by municipality under these programs are as follows:

Municipality	Taxes Abated
Elkland Township	\$ 29,863
Total	\$ 29,863

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

There are no significant abatements made by the District.

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE 14 – SUBSEQUENT EVENTS:

The District has approved borrowing \$1,000,000 for fiscal year 2019 to replace the note payable as described in Note 5.

In May 2018, voters of the District approved bonds generating approximately \$8,680,000. These will be issued in more than one bond series. The District approved issuing 2018 School Building and Site Bonds, Series 1, in the amount of \$2,740,000, payable in annual installments until 2026.

NOTE 15 – NEW ACCOUNTING STANDARD:

For the year ended June 30, 2018, the District implemented the following new pronouncement: GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Summary:

GASB Statement No. 75 requires governments that participate in defined benefit other post-employment benefit (OPEB) plans to report in the statement of net position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The Statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

The restatement of the beginning of the year net position is as follows:

	Governmental Activities
Net position as previously stated July 1, 2017	\$ (4,667,345)
Adoption of GASB Statements 75:	
Net other postemployment benefit liability	(5,235,347)
Deferred outflows	266,609
Deferred inflows	(166,061)
Net position, as restated July 1, 2017	\$ (9,802,144)

CASS CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE 16 – UPCOMING ACCOUNTING PRONOUNCEMENTS:

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and will be effective for the District's 2020 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

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

REQUIRED SUPPLEMENTARY INFORMATION

CASS CITY PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2018

	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
REVENUES:				
Local sources				
Property Tax	\$ 856,825	\$ 895,525	\$ 895,977	\$ 452
Interest	5,000	19,000	20,506	1,506
Other	297,000	275,100	366,052	90,952
Total local sources	<u>1,158,825</u>	<u>1,189,625</u>	<u>1,282,535</u>	<u>92,910</u>
State source	7,807,500	8,025,701	8,042,422	16,721
Federal sources	636,004	676,141	660,915	(15,226)
Other transactions:				
Insurance reimbursements	-	3,300	23,363	20,063
Transfers from other districts	44,560	22,110	43,786	21,676
TOTAL REVENUES	<u>9,646,889</u>	<u>9,916,877</u>	<u>10,053,021</u>	<u>136,144</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	5,008,124	5,202,536	5,191,135	11,401
Added needs	1,242,209	1,205,932	1,254,900	(48,968)
Total instruction	<u>6,250,333</u>	<u>6,408,468</u>	<u>6,446,035</u>	<u>(37,567)</u>
Supporting services:				
Pupil	542,980	577,719	564,547	13,172
Instructional staff	107,192	94,423	89,927	4,496
General administration	302,343	293,008	290,888	2,120
School administration	609,900	604,015	598,334	5,681
Business	167,635	164,205	159,406	4,799
Operation/maintenance	558,150	594,700	577,982	16,718
Pupil transportation	332,800	328,410	320,659	7,751
Central	233,040	236,705	233,988	2,717
Athletics	217,660	264,410	261,769	2,641
Total supporting services	<u>3,071,700</u>	<u>3,157,595</u>	<u>3,097,500</u>	<u>60,095</u>
Community services	169,164	168,569	165,628	2,941
Capital outlay	5,000	26,200	26,200	-
TOTAL EXPENDITURES	<u>9,496,197</u>	<u>9,760,832</u>	<u>9,735,363</u>	<u>25,469</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>150,692</u>	<u>156,045</u>	<u>317,658</u>	<u>161,613</u>
OTHER FINANCING SOURCES (USES):				
Sale of school property	4,000	7,700	7,781	81
Transfers from other funds	-	3,300	3,370	70
Transfers to other funds	-	(3,400)	(3,370)	30
Principal payments	(135,500)	(135,300)	(135,210)	90
Interest payments	(18,600)	(14,800)	(14,628)	172
TOTAL OTHER FINANCING SOURCES (USES)	<u>(150,100)</u>	<u>(142,500)</u>	<u>(142,057)</u>	<u>443</u>
NET CHANGE IN FUND BALANCE	<u>\$ 592</u>	<u>\$ 13,545</u>	<u>175,601</u>	<u>\$ 162,056</u>
FUND BALANCE - BEGINNING OF YEAR			<u>1,657,749</u>	
FUND BALANCE - END OF YEAR			<u>\$ 1,833,350</u>	

CASS CITY PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2018

	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
REVENUES:				
Local Sources:				
Food sales	\$ 170,700	\$ 164,800	\$ 165,174	\$ 374
Interest	300	1,000	1,070	70
Other	1,000	5,300	739	(4,561)
Total Local Sources	<u>172,000</u>	<u>171,100</u>	<u>166,983</u>	<u>(4,117)</u>
State Sources:				
State Lunch Aid	<u>18,000</u>	<u>25,100</u>	<u>25,679</u>	<u>579</u>
Total State Sources	<u>18,000</u>	<u>25,100</u>	<u>25,679</u>	<u>579</u>
Federal Sources:				
National School Lunch Program	298,500	299,200	301,827	2,627
USDA Commodities	<u>38,000</u>	<u>44,000</u>	<u>44,703</u>	<u>703</u>
Total Federal Sources	<u>336,500</u>	<u>343,200</u>	<u>346,530</u>	<u>3,330</u>
TOTAL REVENUES	<u>526,500</u>	<u>539,400</u>	<u>539,192</u>	<u>(208)</u>
EXPENDITURES:				
School Service Activities:				
Salaries	156,700	141,020	140,439	581
Employee benefits	94,830	81,200	81,498	(298)
Purchased services	21,500	43,100	42,047	1,053
Supplies	257,500	275,300	277,826	(2,526)
Miscellaneous	<u>5,250</u>	<u>6,940</u>	<u>6,621</u>	<u>319</u>
TOTAL EXPENDITURES	<u>535,780</u>	<u>547,560</u>	<u>548,431</u>	<u>(871)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(9,280)</u>	<u>(8,160)</u>	<u>(9,239)</u>	<u>(1,079)</u>
OTHER FINANCING SOURCES (USES):				
Transfers to other funds	-	(3,370)	(3,370)	-
Transfers from other funds	<u>-</u>	<u>-</u>	<u>3,370</u>	<u>3,370</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(3,370)</u>	<u>-</u>	<u>3,370</u>
NET CHANGE IN FUND BALANCE	<u>\$ (9,280)</u>	<u>\$ (11,530)</u>	<u>(9,239)</u>	<u>\$ 2,291</u>
FUND BALANCE - BEGINNING OF YEAR			<u>125,250</u>	
FUND BALANCE - END OF YEAR			<u>\$ 116,011</u>	

CASS CITY PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF
PLAN YEAR ENDED SEPTEMBER 30)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.05614%	0.05757%	0.05570%	0.05394%
Reporting unit's proportionate share of net pension liability	\$ 14,548,390	\$ 14,362,381	\$ 13,603,917	\$ 11,880,556
Reporting unit's covered-employee payroll	\$ 4,656,442	\$ 4,893,722	\$ 4,698,243	\$ 4,667,429
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	312.44%	293.49%	289.55%	254.54%
Plan fiduciary net position as a percentage of total net pension liability (Non-university employers)	64.21%	63.27%	63.17%	66.20%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

CASS CITY PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REPORTING UNIT'S PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF
THE YEAR ENDED JUNE 30)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,381,720	\$ 1,319,718	\$ 1,297,682	\$ 1,059,304
Contributions in relation to statutorily required contributions	<u>1,381,720</u>	<u>1,319,718</u>	<u>1,297,682</u>	<u>1,059,304</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 4,612,396	\$ 4,612,146	\$ 4,803,570	\$ 4,748,775
Contributions as a percentage of covered-employee payroll	29.96%	28.61%	27.01%	22.31%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

CASS CITY PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE
SHARE OF THE NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF
PLAN YEAR ENDED SEPTEMBER 30)

	2017
Reporting unit's proportion of net OPEB liability (%)	0.05605%
Reporting unit's proportionate share of net OPEB liability	\$ 4,963,457
Reporting unit's covered-employee payroll	\$ 4,656,442
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	106.59%
Plan fiduciary net position as a percentage of total net OPEB liability (Non-university employers)	36.39%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

CASS CITY PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REPORTING UNIT'S OPEB CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF
THE YEAR ENDED JUNE 30)

	2018
Statutorily required OPEB contributions	\$ 300,964
OPEB Contributions in relation to statutorily required contributions	300,964
Contribution deficiency (excess)	\$ -
Reporting unit's covered-employee payroll (OPEB)	\$ 4,612,396
OPEB Contributions as a percentage of covered-employee payroll	6.53%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

CASS CITY PUBLIC SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018

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

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

ADDITIONAL SUPPLEMENTARY INFORMATION

CASS CITY PUBLIC SCHOOLS
SCHEDULE OF BONDED DEBT
2017 DEBT RETIREMENT
JUNE 30, 2018

<u>DUE DATE</u>	<u>PRINCIPAL</u>	<u>RATES</u>	<u>INTEREST DUE</u>	<u>PAYMENT DUE</u>
5/1/2019	\$ 590,000	1.44%	\$ 26,434	\$ 616,434
5/1/2020	600,000	1.50%	17,938	617,938
5/1/2021	545,000	1.64%	8,938	553,938
TOTAL	<u>\$ 1,735,000</u>		<u>\$ 53,310</u>	<u>\$ 1,788,310</u>

The bond proceeds were used to refund the 2008 debt service. The 2008 debt service bond proceeds were used for the purpose of remodeling, furnishing and refurbishing, equipping and re-equipping school buildings, including the bus garage; acquiring, installing, equipping and re-equipping school buildings for technology; acquiring buses; and developing and improving athletic facilities and sites.

CASS CITY PUBLIC SCHOOLS
SCHEDULE OF PAYMENTS ON LOANS
JUNE 30, 2018

ENERGY PROGRAM LOAN

<u>DUE DATE</u>	<u>PRINCIPAL DUE</u>	<u>INTEREST DUE</u>	<u>DEBT SERVICE REQUIREMENT FOR FISCAL YEAR</u>
			<u>AMOUNT</u>
10/4/2018	\$ 49,716	\$ 5,461	\$ 55,177
4/4/2019	50,462	4,715	55,177
10/4/2019	51,219	3,958	55,177
4/4/2020	51,987	3,190	55,177
10/4/2020	52,767	2,410	55,177
4/4/2021	53,558	1,619	55,177
10/4/2021	54,363	814	55,177
	<u>\$ 364,072</u>	<u>\$ 22,167</u>	<u>\$ 386,239</u>

The above bond issue bears interest at 4.15%. The bond proceeds were used for purchasing and installation for energy efficient building components.

SCHOOL BUS LOAN

<u>DUE DATE</u>	<u>PRINCIPAL DUE</u>	<u>INTEREST DUE</u>	<u>DEBT SERVICE REQUIREMENT FOR FISCAL YEAR</u>
			<u>AMOUNT</u>
6/30/2019	\$ 38,727	\$ 2,282	\$ 41,009
6/30/2020	39,498	1,511	41,009
6/30/2021	36,429	725	37,154
	<u>\$ 114,654</u>	<u>\$ 4,518</u>	<u>\$ 119,172</u>

The above bond issue bears interest at 1.99%. The loan proceeds were used for purchasing three school buses.

CASS CITY PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	GRANT/ PROJECT NUMBER	AWARD AMOUNT	ACCRUED (UNEARNED) REVENUE 6/30/2017	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES	ACCRUED (UNEARNED) REVENUE 6/30/2018
CLUSTERS:								
Child Nutrition Cluster - U.S. Department of Agriculture:								
Passed through the Michigan Department of Education:								
Non-Cash assistance (Commodities):								
National School Lunch Program - non bonus	10.555	N/A	\$ 44,703	\$ -	\$ -	\$ 44,703	\$ 44,703	\$ -
Cash Assistance:								
National School Lunch	10.555	171960	23,368	-	-	23,368	23,368	-
National School Lunch		171980	582	-	-	582	582	-
National School Lunch		181960	195,294	-	-	195,294	195,294	-
National School Lunch		181980	4,550	-	-	4,550	4,550	-
National School Lunch Program (including commodities) Subtotal			<u>268,497</u>	<u>-</u>	<u>-</u>	<u>268,497</u>	<u>268,497</u>	<u>-</u>
School Breakfast Program	10.553	171970	5,771			5,771	5,771	-
School Breakfast Program		181970	49,264			49,264	49,264	-
National School Breakfast Program Subtotal			<u>55,035</u>	<u>-</u>	<u>-</u>	<u>55,035</u>	<u>55,035</u>	<u>-</u>
Summer Food Program	10.559	170900	23,770	6,396	6,396	23,770	17,374	-
Summer Food Program		171900	2,464	664	664	2,464	1,800	-
Summer Food Program		180900	3,465				3,465	3,465
Summer Food Program		181900	359				359	359
National Summer Food Program Subtotal			<u>30,058</u>	<u>7,060</u>	<u>7,060</u>	<u>26,234</u>	<u>22,998</u>	<u>3,824</u>
Total Child Nutrition Cluster			<u>353,590</u>	<u>7,060</u>	<u>7,060</u>	<u>349,766</u>	<u>346,530</u>	<u>3,824</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>353,590</u>	<u>7,060</u>	<u>7,060</u>	<u>349,766</u>	<u>346,530</u>	<u>3,824</u>

The accompanying notes are an integral part of this schedule.

CASS CITY PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	GRANT/ PROJECT NUMBER	AWARD AMOUNT	ACCRUED (UNEARNED) REVENUE 6/30/2017	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES	ACCRUED (UNEARNED) REVENUE 6/30/2018
CLUSTERS:								
U.S. DEPARTMENT OF EDUCATION:								
Passed through Michigan Dept. of Education:								
Title I, Part A	84.010	171530/1617	\$ 359,518	\$ 337,331	\$ 337,331	\$ 337,331	\$ -	\$ -
Title I, Part A		181530/1718	<u>355,230</u>	<u>-</u>	<u>-</u>	<u>215,812</u>	<u>323,886</u>	<u>108,074</u>
Total Title I Cluster			<u>714,748</u>	<u>337,331</u>	<u>337,331</u>	<u>553,143</u>	<u>323,886</u>	<u>108,074</u>
Title V, Part B	84.358	180660/1718	<u>17,036</u>	<u>-</u>	<u>-</u>	<u>17,036</u>	<u>17,036</u>	<u>-</u>
Total Title V Cluster			<u>17,036</u>	<u>-</u>	<u>-</u>	<u>17,036</u>	<u>17,036</u>	<u>-</u>
Title II, Part A	84.367	170520/1617	74,939	69,300	69,300	69,300		-
Title II, Part A		180520/1718	<u>67,077</u>	<u>-</u>	<u>-</u>	<u>38,238</u>	<u>66,345</u>	<u>28,107</u>
Total Title II Cluster			<u>142,016</u>	<u>69,300</u>	<u>69,300</u>	<u>107,538</u>	<u>66,345</u>	<u>28,107</u>
Title IV Part A Student Support & Academic Enrichment	84.424	180750/1718	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Total Title IV Cluster			<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
TOTAL PASSED THROUGH MICHIGAN DEPT. OF EDUCATION:			<u>883,800</u>	<u>406,631</u>	<u>406,631</u>	<u>687,717</u>	<u>417,267</u>	<u>136,181</u>
Passed through Tuscola Intermediate School District:								
IDEA Special Education	84.027A	1718	<u>243,648</u>	<u>-</u>	<u>-</u>	<u>243,648</u>	<u>243,648</u>	<u>-</u>
Total Passed through Tuscola Intermediate School District:			<u>243,648</u>	<u>-</u>	<u>-</u>	<u>243,648</u>	<u>243,648</u>	<u>-</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 1,481,038</u>	<u>\$ 413,691</u>	<u>\$ 413,691</u>	<u>\$ 1,281,131</u>	<u>\$ 1,007,445</u>	<u>\$ 140,005</u>

The accompanying notes are an integral part of this schedule.

CASS CITY PUBLIC SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Cass City Public Schools' under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Cass City Public Schools, it is not intended to and does not present the financial position or changes in net position of Cass City Public Schools.

The District qualifies for low risk auditee status. Management has utilized the Cash Management System and the Grant Auditor's Report in preparing the Schedule of Expenditures of Federal Awards.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity indentifying numbers are presented where available. Cass City Public Schools has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 - RECONCILIATION WITH AUDITED FINANCIAL STATEMENTS

Federal expenditures are reported as revenue in the following funds in the financial statements:

General Fund	\$660,915
Special Revenue Fund	<u>346,530</u>
Total	<u>\$1,007,445</u>

NOTE 4 - SUBRECIPIENT PASS THROUGH AMOUNTS

Cass City Public Schools did not provide any federal awards to subrecipients.



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

To the Board of Education
Cass City Public Schools
Cass City, MI 48726

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cass 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 Cass City Public Schools' basic financial statements and have issued our report thereon dated October 18, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Cass 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 the Cass City Public Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Cass 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. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency, see item 2018-001.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Cass 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*.

CASS CITY PUBLIC SCHOOLS' RESPONSES TO FINDINGS

Cass City Public Schools' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Cass City Public Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

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

Anderson, Tuckey, Bernhardt & Doran, P.C.

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CARO, MICHIGAN**

October 18, 2018



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Education
Cass City Public Schools
Cass City, MI 48726

Report On Compliance For Each Major Federal Program

We have audited Cass City Public Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Cass City Public Schools' major federal programs for the year ended June 30, 2018. Cass City Public Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Cass City Public Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cass City Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our unmodified opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Cass City Public Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, Cass City Public Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Cass City Public Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cass City Public Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cass City Public Schools' internal control over compliance.

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

Our consideration of the internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CARO, MICHIGAN

October 18, 2018

CASS CITY PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes _____ None reported
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor’s report issued on compliance for major programs: *Unmodified*

Any audit findings that are required to be reported in accordance with Title 2 CFR 200.516(a) _____ Yes X No

Identification of major programs:

CFDA Number(s)

84.010

Name of Federal Program or Cluster

Title I Cluster

Dollar threshold used to distinguish between Type A and Type B Programs: \$750,000

Auditee qualified as low-risk auditee? X Yes _____ No

CASS CITY PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

Section II – Financial Statement Findings

Finding 2018-001 Considered a significant deficiency

Criteria:

Statement on Auditing Standards #115 titled Communicating Internal Control Related matters Identified in an Audit (issued October 2008), requires us to communicate in writing when a client has a small staff that limits the segregation of duties.

Condition:

Due to the limited number of staff, many critical duties are combined and given to the available staff and/or board members.

Context:

Internal controls are weakened due to the lack of segregation of duties.

Effect:

Other staff members and/or board members must be utilized in order to achieve good internal controls.

Cause:

The district doesn't have enough staff in the business office to have a proper segregation of duties.

Recommendation:

At this time, we recommend the district segregate the duties whenever possible and communicate this as required by professional standards. The correct process meets the definition of a significant deficiency as defined in Statement on Auditing Standards #115.

Client Response:

We are aware of this deficiency and believe it is not cost beneficial in our situation to hire additional staff. We will continue to segregate duties in the business office based on available staff. We would expect this situation to be ongoing in future years.

Section III – Federal Award Findings and Questioned Costs

None

CASS CITY PUBLIC SCHOOLS
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018

Section II – Financial Statement Findings

Finding 2017-001 and 2016-001 Considered a significant deficiency

Criteria:

Statement on Auditing Standards #115 titled Communicating Internal Control Related matters Identified in an Audit (issued October 2008), requires us to communicate in writing when a client has a small staff that limits the segregation of duties.

Condition:

Due to the limited number of staff, many critical duties are combined and given to the available staff and/or board members.

Context:

Internal controls are weakened due to the lack of segregation of duties.

Effect:

Other staff members and/or board members must be utilized in order to achieve good internal controls.

Cause:

The district doesn't have enough staff in the business office to have a proper segregation of duties.

Recommendation:

At this time, we recommend the district segregate the duties whenever possible and communicate this as required by professional standards. The correct process meets the definition of a significant deficiency as defined in Statement on Auditing Standards #115.

Client Response:

We are aware of this deficiency and believe it is not cost beneficial in our situation to hire additional staff. We will continue to segregate duties in the business office based on available staff. We would expect this situation to be ongoing in future years.



Cass City Public Schools

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*Learning from the past.
Making the most of the present.
Preparing for the future.*

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Superintendent
989-872-2200

Chad Daniels
Jr./Sr. High School
Principal
989-872-2148

Don Markel
Assistant Principal
Athletic Director
989-912-1836

Aaron Fernald
Elementary School
Principal
989-872-2158

Lyle Severance
Technology Director
989-912-1843

Allison Zimba
Chief Financial Officer
989-912-1846

Shari Bock
Food Service Director
989-872-5729

CASS CITY PUBLIC SCHOOLS CORRECTIVE ACTION PLAN JUNE 30, 2018

Certain matters were brought to our attention as a result of the audit process. These are described at length in the Schedule of Findings and Questioned Costs. We evaluated the matter as described below, and have described our planned actions as a result.

2018-001 - Segregation of Duties

Planned Corrective Action: We are aware of this deficiency and believe it is not cost beneficial in our situation to hire additional staff. We will continue to segregate duties in the business office based on available staff. We would expect this situation to be ongoing in future years.

Responsible Party: Jeffrey Hartel

Date of Planned Corrective Action: Ongoing

Management Assessment: We concur with the audit assessment regarding this matter.

MISSION STATEMENT

All School personnel will accept the responsibility to provide the opportunity for all students to be productive in a global society.



ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

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To the Members of the Board
Cass City Public Schools

We have audited the financial statements of **Cass City Public Schools** for the year ended **June 30, 2018**, and have issued our report thereon dated October 18, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, Government Auditing Standards and OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards, Government Auditing Standards, and OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered **Cass City Public Schools'** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether **Cass City Public Schools'** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also in accordance with the Uniform Guidance, we examined, on a test basis, evidence about **Cass City Public Schools'** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on **Cass City Public Schools'** compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on **Cass City Public Schools'** compliance with those requirements.

Our responsibility for the supplementary information accompanying the financial statement, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by **Cass City Public Schools** are described in Note 1 to the financial statements. During 2018, the District implemented Governmental Accounting Standard No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The application of existing policies was not changed during the year. We noted no transactions entered into by **Cass City Public Schools** during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 financial statements were:

Management's estimates of the net pension liability and the net other postemployment benefit liability are based on actuarial data. We evaluated the key factors and assumptions used to develop the balance of the net pension liability and net other postemployment benefit liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the liability of the payout of employee compensated absences upon their retirement is based on an expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

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

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We have proposed adjustments that we consider to be significant and have communicated this to management.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 18, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to **Cass City Public Schools'** 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 **Cass City Public Schools'** auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

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

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

A separate management letter was not issued.

Restriction on Use

This information is intended solely for the use of the Members of the Board and management of **Cass City Public Schools** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Anderson, Tuckey, Bernhardt, & Doran, P.C.
Certified Public Accountants
Caro, Michigan

October 18, 2018