

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



**Addison Community Schools**

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## **Independent Auditor's Report**

To the Board of Education  
Addison Community Schools  
Addison, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Addison Community Schools as of and for the year ended June 30, 2018, and related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

Your partner in financial statement auditing and all things accounting.

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To the Board of Education  
Addison Community Schools  
Addison, Michigan

## **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 Addison Community Schools as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited Addison Community Schools' 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 19, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of net pension liability and schedule of contributions on pages 3 through 9 and pages 42 through 47, 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 Addison Community Schools' basic financial statements. The combining fund financial statements and schedule of changes in assets and liabilities for the student activity fund are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of federal revenues is presented for purposes of additional analysis as requested by the State of Michigan Department of Education, and is also not a required part of the basic financial statements.

The combining fund financial statements, schedule of federal revenues and schedule of changes in assets and liabilities for the student activity fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, schedule of federal revenues and schedule of changes in assets and liabilities for the student activity fund are fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Board of Education  
Addison Community Schools  
Addison, Michigan

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Addison Community Schools' internal control over financial reporting and compliance.

*Meredith Francis, CPA, P.C.*

Adrian, Michigan  
October 19, 2018

**Addison Community Schools  
Management’s Discussion and Analysis  
June 30, 2018**

Our discussion and analysis of Addison Community School District financial performance provides an overview of the School District’s financial activities in the fiscal year ended June 30, 2018. The Addison Community School District implemented GASB 34 requirements in the June 30, 2004 audit as required by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments issued June, 2000. Certain comparative information between the current year and the prior year is required and will be presented in this MD&A. Please read it in conjunction with the School District’s financial statements, which immediately follow this section.

The management’s discussion and analysis is provided at the beginning of the audit and organized so that the reader can understand terms the past and current position of the Addison Community School District financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the School District’s revenues by program for the General Fund and Special Revenue Fund.

## **Using This Annual Report**

The School District’s Annual Report consists of a series of financial statements that show information for the School District as a whole, its funds, and its fiduciary responsibilities. The *District Wide Financial Statements*, which include the **Statement of Net Position** and the **Statement of Activities** provide information about the district as a whole and present a longer-term view of the School District’s finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid. The *Fund Financial Statements* provide detailed information about the School District’s most significant funds-not the School District as a whole.

## **Reporting the school district as a whole**

These two statements report the School District’s net assets-the difference between assets and liabilities, as reported in the **Statement of Net Position** – as one way to measure the School District’s financial health or financial position. The **Statement of Net Position**, for the first time, combines and consolidates governmental fund’s current financial resources with capital assets and long-term obligations, regardless if they are currently available or not. In comparison to “other assets”, capital assets are those assets that are tangible, valued over a specified amount, and usually have a long life. They are depreciated over a useful life. More detail on capital assets and their recorded useful lives is found in the footnote section of the audit. Long-term obligations (liabilities) are those that are longer than one year. Some liabilities are classified as “short-term” for the portion due in a year, and “long-term” for the portion due in future years (such as leases payable, compensated absences, and debt obligations). “Other liabilities” are considered to be obligations due within a year. Over time, increases or decreases in the School District’s net position – as reported in the **Statement of Activities** – is one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the School District’s operating results.

However, the School District’s goal is to provide services to our students, not to generate a profit as commercial entities do. There are other factors to consider such as quality of education and school safety to assess the overall health of the School District.

The **Statement of Net Position** and **Statement of Activities** report the governmental activities and business-type activities. These statements for the Addison Community School District will include only governmental activities which encompass all of the School District’s services including instruction, supporting services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

**Addison Community Schools  
Management's Discussion and Analysis  
June 30, 2018**

## **Reporting the school district's most significant funds**

The School District's fund financial statements provide detailed information about the School District's most significant funds- not the School District as a whole. The fund statements are similar to financial presentations in the past, but the focus is on the District's major funds rather than fund types. The two Account Groups: General Fixed Assets and General Long-Term Debt are no longer reported. Some funds are required by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (such as **Food Service**) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other monies (such as **Special Revenue**). Due to the passing of the 2010 bond, the School District now has 2 major funds. The School District's major funds are the **General Fund** and **Debt Service Fund**.

Most of the School District's services are reported in governmental funds. Governmental fund reporting focuses on how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. They are reported using an accounting method called "modified accrual" accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School District's operations and services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between *governmental activities* (reported in the **Statement of Net Position** and the **Statement of Activities**) and *governmental funds* in reconciliation on page 14 and 16.

Fund types include the General Fund, Debt Retirement Fund, Capital Projects Fund, Special Revenue Fund, and Fiduciary Fund. The General Fund is used primarily to account for the general education requirements of the District. Its revenues are derived from property taxes, state and federal distributions and grants and other intergovernmental revenues. The Debt Fund is used to record the funding and payment of principal and interest on Bonded Debt. The Special Revenue Fund is used to record the funding and expenditures of monies specified for a specific purpose (Food service). The Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent for various student groups and related activities.

### **Recording of Pension Liability**

Employees of Addison Community Schools are members of the Michigan Public School Employees Retirement System (MPERS). Due to a new requirement from the Governmental Accounting Standards Board (GASB 68) each district in the state of Michigan must disclose its proportionate share of net pension liability and pension expense. Also, there are additional requirements for pension-related Notes to the Financial Statement and Required Supplemental Information contained in the audit.

Proportionate share is based on each district's historical pension contributions to the system and is based on the MPERS plan fiscal year (October 1 – September 30). Addison's share of total pension liability for the state is 0.04831682% and amounts to \$12,520,942 as of the end of the fiscal year. This amount is included in "long term liabilities outstanding" on the government-wide statement and puts the district in a negative position for total net assets. Addison's proportionate share of pension expense is \$1,186,611 as of the end of the fiscal year.

This data will change every year as the liability is paid off over time, the market value of assets fluctuates over time, and the reporting unit proportionate share can change.



**Addison Community Schools  
Management's Discussion and Analysis  
June 30, 2018**

## **The School District as a Whole**

The School District's net position was (\$9,620,724) at the end of June 30, 2018 compared to (\$6,808,316) at the end of June 30, 2017. Due to GASB 68, there is now another new line item listed under Noncurrent Liabilities – Net Pension Liability - \$12,520,942 and Net OPEB liability (new 2018) - \$4,279,495 which results in a negative balance for Unrestricted Net Assets. This fiscal year and going forward our Net Position will be negative because of showing this new liability on the government wide statements. See **Recording of Pension Liability** (above) and **Note 9** (near end of audit) for more detailed information. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. Our analysis below focuses on the **Net Position** (Table 1) and **Change in Net Position** (Table 2) of the School District's governmental activities.

Table 1

|   | <b>Governmental<br/>Activities</b> |                              |
|---|------------------------------------|------------------------------|
|   | <b>2018</b>                        | <b>2017</b>                  |
| Current and other assets                        | \$ 2,643,478                       | \$ 2,552,878                 |
| Capital assets                                  | 17,555,922                         | 18,015,830                   |
| Total assets                                    | <u>20,199,400</u>                  | <u>20,568,708</u>            |
| Deferred outflows of resources                  | <u>2,713,004</u>                   | <u>1,329,170</u>             |
| Long term liabilities outstanding               | 30,264,641                         | 26,761,790                   |
| Other liabilities                               | <u>1,043,291</u>                   | <u>1,039,069</u>             |
| Total liabilities                               | <u>31,307,932</u>                  | <u>27,800,859</u>            |
| Deferred inflows of resources                   | <u>1,225,196</u>                   | <u>905,335</u>               |
| <b>Net position:</b>                            |                                    |                              |
| Invested in capital assets, net of related debt | 4,204,265                          | 3,805,105                    |
| Restricted for:                                 |                                    |                              |
| Debt  | 681,752                            | 635,124                      |
| Capital Projects                                | 8                                  | 8                            |
| Unrestricted                                    | <u>(14,506,749)</u>                | <u>(11,248,553)</u>          |
| Total net position                              | <u><u>\$ (9,620,724)</u></u>       | <u><u>\$ (6,808,316)</u></u> |

Taking Net Pension Liability out of the calculation for total net position \$2,293,688 is in unrestricted net assets of governmental activities which represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities, (compensated absences for example), we would have \$2,293,688 left. The net position has increased by about \$1,042,264.

The **Statement of Activities** presented later in the government-wide financial statement, provides greater detail on the District's annual activity. The **Statement of Changes in Net Position from Operating Results** (Table 2) showed on next page details the cost of the District's governmental activities and how those activities were financed.

**Addison Community Schools  
Management's Discussion and Analysis  
June 30, 2018**

Table 2

|                                 | <b>Governmental<br/>Activities</b> |                       |
|---------------------------------|------------------------------------|-----------------------|
|                                 | <b>2018</b>                        | <b>2017</b>           |
| Program revenues:               |                                    |                       |
| Charges for services:           |                                    |                       |
| Instruction                     | \$ 68,548                          | \$ 53,407             |
| Support services                | 7,265                              | 7,122                 |
| Food services                   | 155,803                            | 163,036               |
| Athletics                       | 55,139                             | 47,744                |
| Community services              | 8,227                              | 9,847                 |
| Operating grants:               |                                    |                       |
| Instruction:                    |                                    |                       |
| Local contributions             | 22,040                             | 24,611                |
| State aid-Categoricals          | 180,573                            | 149,607               |
| Federal programs                | 191,169                            | 213,963               |
| Support services:               |                                    |                       |
| State aid-Categoricals          | 109,674                            | 104,268               |
| Federal programs                | 6,675                              | 5,015                 |
| Food services:                  |                                    |                       |
| Free and reduced lunch program  | 330,654                            | 284,679               |
| USDA commodities                | 15,025                             | 16,682                |
| QSCB tax subsidy                | 529,809                            | 564,452               |
| Contributions for Athletics     | 12,109                             | 11,305                |
| Total program revenues          | <u>1,692,710</u>                   | <u>1,655,738</u>      |
| General revenues:               |                                    |                       |
| Property taxes                  | 4,472,085                          | 4,295,071             |
| Investment earnings             | 8,901                              | 4,976                 |
| State sources-unrestricted      | 4,043,245                          | 3,917,862             |
| Intermediate sources            | 493,435                            | 454,187               |
| Other                           | 17,610                             | 40,336                |
| Total general revenues          | <u>9,035,276</u>                   | <u>8,712,432</u>      |
| Total revenues                  | <u>10,727,986</u>                  | <u>10,368,170</u>     |
| Expenses:                       |                                    |                       |
| Instruction                     | 5,656,107                          | 5,133,630             |
| Support services                | 1,639,176                          | 2,638,230             |
| Food services                   | 450,339                            | 434,583               |
| Athletics                       | 307,438                            | 322,116               |
| Community services              | 1,706                              | 1,424                 |
| Interest expense                | 804,947                            | 842,747               |
| Unallocated depreciation        | 459,908                            | 468,504               |
| Total expenses                  | <u>9,319,621</u>                   | <u>9,841,234</u>      |
| Change in net position          | 1,408,365                          | 526,936               |
| Net position, beginning of year | <u>(11,029,089)</u>                | <u>(7,335,252)</u>    |
| Net position, end of year       | <u>\$ (9,620,724)</u>              | <u>\$ (6,808,316)</u> |

**Addison Community Schools  
Management's Discussion and Analysis  
June 30, 2018**

## **Financial Analysis of the District's Funds**

The financial performance of the district as a whole is reflected in its governmental funds as well.

### **General Fund**

#### **Factors affecting Revenue**

- *State Aid funding* -The State of Michigan provides a \$7,631 per pupil foundation allowance that provides a substantial portion of our district's revenue. The District's blended count, which is used to compute the State Aid allowance, consists of 90% of the fall student count and 10% of the previous spring's student count. For the 2017-18 school year, the District blended count was 847.4. In addition, the district also receives various grants from the state. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. State aid payments are made with the first payment of the school year beginning in October, and the last payment being made in August. Therefore, at the end of the District's fiscal year end, there is adjustment made that includes 2 months of state aid payments into revenue that has not yet been made.
- *Property Taxes* – The District levies 18 mills of property taxes for operations on non-homestead properties, less the mandatory reductions required by the Headlee Amendment, Article IX, Section 31. For the 2017-18 fiscal year, 18 mills were levied on non-homestead property for general purposes and 2.85 mills were levied on all property for payment of the 2010 school building and site bonds passed in May 2010. In the 2017-18 fiscal year, there was a Headlee millage reduction fraction of .9919. In November 2016, an additional mill was approved by the voters to cover any Headlee millage reductions. This extra voted millage was applied for 2017 levy allowing the district to levy the full 18 mills. Property tax revenues are recorded on a cash basis and for the 2017-18 fiscal year were \$3,163,392 for general purposes and \$1,176,985 for debt service.
- *Schools of Choice*- The School District have an agreement with the other public schools in Lenawee County to implement a Lenawee County Schools of Choice (Open Enrollment) program. During the 2017-18 school year, of the 847 pupils enrolled, 162 (19%) of our student population were schools of choice pupils. The number and % of school of choice students remained the same compared to previous school years.

#### **Factors affecting Expenses**

- *Salaries and Benefits*- A significant portion of the School District's expenses are related to compensation.
- *Instructional purchases*- A substantial part of each year's budgetary expenditures include textbooks and supplemental learning materials, supplies, and purchased services.
- *Operation and Maintenance*- Much of each year's budgetary expenditures also include the general operation and maintenance of our school buildings.

**Addison Community Schools  
Management's Discussion and Analysis  
June 30, 2018**

## **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 July 1, the start of the fiscal year. As a matter of practice, the District amends its budget during the school year. In fact, all Michigan school districts must complete a second full budget after the state's official student membership count date (the first Wednesday in October), because only then are they knowledgeable of their Foundation Grant's income level. These revisions are made in order to deal with the unexpected changes in revenues and expenditures. The following analysis describes the reasons for changes in the budget during the year.

## **Original Budget versus Final Budget**

- *Revenues*- Estimated original budgets for revenues were \$8,106,059 versus the final budget of \$8,502,208. The increase in revenue was combination of student count, MPSERS 1 time payments from the state and various other small changes in funding.
- *Expenditures*- The original budget for expenditures was \$8,193,034 versus the final budget of \$8,518,215. The main portion of the increase was due to addition of staff and contract changes.

## **Final Budget versus Actual Figures**

- The majority (about 95%) of *Local Revenues* are property taxes received from five townships including Liberty, Rollin, Somerset, Wheatland and Woodstock.
- *Expenses*- Expenses were budgeted at \$8,518,215 versus actual expenditures of \$8,518,122. The economy for the state continued to be very uncertain for the fiscal year 2017-18. As a school district, Addison Community Schools tried to be very conservative in our spending in order for us to provide the best instructional opportunities to our students.
- *Revenues*- Revenues were budgeted at \$8,502,208 versus actual revenues of \$8,505,199. This was mainly due to changes in revenue received from MDE in the July and August state aid payment.

## **Actual Figures 2017-18 compared to 2016-17**

- *Local Revenues* for the fiscal year ended June 30, 2018 were \$3,481,958 compared to \$3,291,138 in the previous year. The majority of this increase was due to change in property tax revenue and local grants. Due to GASB changes in fiscal year 2010/11, the Athletic Fund is now recorded as part of the General Fund. Athletic revenue from admission fees, donations, etc. is now recorded as part of the local source revenue in the General Fund.
- *State Revenues* for the fiscal year ended June 30, 2018 were \$4,333,492 compared to \$4,171,737 in the previous fiscal year. This change reflects various changes to categoricals included in state aid payments and MPSERS 1 time funding compared to the previous school year.
- *Federal Revenues* for the fiscal year ended June 30, 2018 were \$197,844 compared to \$218,978 from the previous school year. Title 1 and Title 2A reductions are the main source of this decrease.
- *Expenditures* for the fiscal year ended June 30, 2018 were \$8,518,122 compared to \$7,987,665 from the previous school year. These increases in expenses were largely due to addition in staff.

**Addison Community Schools  
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**Special Revenue Funds**

- *School Lunch Fund*- The School Lunch Fund receives its revenues from the sale of goods, federal grants, and transfers from the General Fund. For the fiscal year 2017-18, the General Fund did not transfer money to the School Lunch Fund. The School Lunch Fund transferred \$28,000 in indirect costs to the General Fund in fiscal year 2017-18. Addison Community Schools consolidated food service director services with Hudson Schools in 2009-10.
- *Athletic Fund*- Beginning in the fiscal year 2010-11, the Athletic fund is no longer considered a special revenue fund but is recorded as part of the General Fund. In the past, the money used to balance the Athletic Fund was shown on the statements as a transfer out. The Athletic Fund receives its revenues from admission fees, and transfers from the General Fund. Beginning 2010-11 fiscal year and going forward, athletics is now recorded as a line item in the General fund expenditures as athletic activities. The net result of revenue and expenses was that the General Fund subsidized athletics with \$236,618 for the 2017-18 fiscal year compared to \$250,251 for the 2016-17 fiscal year.
- *Capital Projects Fund*- The additional Capital Project funds are now closed as the bond construction is complete. The original Capital Projects fund is the only one remaining. Capital Projects fund #1 (existed from prior years) - receives its revenues from transfers from the General Fund and interest earned from previous transfers. There were no transfers into this Capital Projects Fund since the 2007/2008 fiscal year.

**Debt Service Fund**

- Due to the passing of the 2010 bond, there are two new additional debt service funds – QSCB and BAB. Both of these are used to pay the annual interest and principal payments on their corresponding bond issues. The maximum number of years the bonds may be outstanding is twenty-five (25) years.

**Capital Asset and Debt Administration**

- *Capital Assets*- At June 30, 2018, the School District had \$17,555,922 invested in capital assets, net of accumulated depreciation. This compares to \$18,015,830 in the 2016-17 fiscal year. This decrease is due to increase in accumulated depreciation. As these items also relate to capital assets, the amount *invested in capital assets net of related debt* is \$4,204,265 compared to \$3,805,105 in the previous year.
- *Bond proposal* – On May 4, 2010, the Addison Community Schools community passed a general obligation unlimited tax bond in the amount of \$19,990,000 for the purpose of erecting, equipping and furnishing additions to and remodeling, equipping and re-equipping and furnishing and re-furnishing a school building. Construction began spring of 2011. School opened in the new and updated buildings in the Fall of 2012.

**Contacting the District's Financial Management**

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, please contact:

Business Office  
Addison Community Schools  
219 N. Comstock St

**Addison Community Schools  
Management's Discussion and Analysis  
June 30, 2018**

Addison, MI 49220

**Addison Community Schools**

**Statement of Net Position**

**June 30, 2018 and 2017**

|   | <b>Governmental Activities</b> |                              |
|---|--------------------------------|------------------------------|
|   | <b>2018</b>                    | <b>2017</b>                  |
| <b>Assets:</b>                                      |                                |                              |
| <b>Current assets:</b>                              |                                |                              |
| Cash and cash equivalents                           | \$ 1,170,486                   | \$ 1,337,733                 |
| Investments   | 489,721                        | 195,248                      |
| Accounts receivable                                 | 10,594                         | 6,292                        |
| Interest receivable                                 | 2,055                          | 933                          |
| Due from other governmental units                   | 967,477                        | 942,240                      |
| Prepaid expenses                                    | -                              | 66,105                       |
| Inventory   | 3,145                          | 4,327                        |
| Total current assets                                | <u>2,643,478</u>               | <u>2,552,878</u>             |
| <b>Noncurrent assets:</b>                           |                                |                              |
| Capital assets                                      | 26,903,672                     | 26,903,672                   |
| Less: Accumulated depreciation                      | <u>(9,347,750)</u>             | <u>(8,887,842)</u>           |
| Total assets  | <u>20,199,400</u>              | <u>20,568,708</u>            |
| <b>Deferred outflows of resources:</b>              |                                |                              |
| Deferred pension amounts                            | 2,471,309                      | 1,329,170                    |
| Deferred other postemployment benefit amounts       | <u>241,695</u>                 | <u>-</u>                     |
| Total assets and deferred outflows of resources     | <u><u>22,912,404</u></u>       | <u><u>21,897,878</u></u>     |
| <b>Liabilities:</b>                                 |                                |                              |
| <b>Current liabilities:</b>                         |                                |                              |
| Accounts payable                                    | 116,656                        | 195,750                      |
| State aid loan payable                              | 170,162                        | 156,364                      |
| Due to other governmental units                     | 88,695                         | 95,951                       |
| Unearned revenue                                    | 83,064                         | 40,907                       |
| Salaries payable                                    | 439,899                        | 412,463                      |
| Accrued expenses                                    | <u>144,815</u>                 | <u>137,634</u>               |
| Total current liabilities                           | <u>1,043,291</u>               | <u>1,039,069</u>             |
| <b>Noncurrent liabilities:</b>                      |                                |                              |
| Due within one year                                 | 889,915                        | 870,000                      |
| Due in more than one year                           | 12,574,289                     | 13,391,813                   |
| Net pension liability                               | 12,520,942                     | 12,499,977                   |
| Net other postemployment benefit liability          | <u>4,279,495</u>               | <u>-</u>                     |
| Total liabilities                                   | <u>31,307,932</u>              | <u>27,800,859</u>            |
| <b>Deferred inflows of resources:</b>               |                                |                              |
| Deferred pension amounts                            | 1,080,518                      | 905,335                      |
| Deferred other postemployment benefit amounts       | <u>144,678</u>                 | <u>-</u>                     |
| Total liabilities and deferred inflows of resources | <u>32,533,128</u>              | <u>28,706,194</u>            |
| <b>Net position:</b>                                |                                |                              |
| Invested in capital assets net of related debt      | 4,204,265                      | 3,805,105                    |
| Restricted for:                                     |                                |                              |
| Debt service  | 681,752                        | 635,124                      |
| Capital projects                                    | 8                              | 8                            |
| Unrestricted  | <u>(14,506,749)</u>            | <u>(11,248,553)</u>          |
| Total net position                                  | <u><u>\$ (9,620,724)</u></u>   | <u><u>\$ (6,808,316)</u></u> |

The notes to the financial statements are an integral part of this statement.

Addison Community Schools

**Statement of Activities**

For the Year Ended June 30, 2018  
With Comparative Totals for the Year Ended June 30, 2017

| <u>Functions/programs</u>                   | <u>Expenses</u>     | <u>Program Revenues</u>     |                         | <u>Total Governmental Activities</u>                     |                      |
|---|---------------------|-----------------------------|-------------------------|--|----------------------|
|   |                     | <u>Charges for Services</u> | <u>Operating Grants</u> | <u>Net (Expense) Revenue and Changes in Net Position</u> |                      |
|   |                     |                             |                         | <u>2018</u>  | <u>2017</u>          |
| <b>Governmental activities:</b>             |                     |                             |                         |  |                      |
| Instruction                                 | \$ 5,656,107        | \$ 68,548                   | \$ 393,782              | \$ (5,193,777)   | \$(4,692,042)        |
| Support services                            | 1,639,176           | 7,265                       | 116,349                 | (1,515,562)  | (2,521,825)          |
| Food services                               | 450,339             | 155,803                     | 345,679                 | 51,143   | 29,814               |
| Athletics                                   | 307,438             | 55,139                      | 12,109                  | (240,190)  | (263,067)            |
| Community services                          | 1,706               | 8,227                       | -                       | 6,521  | 8,423                |
| Interest expense                            | 804,947             | -                           | 529,809                 | (275,138)  | (278,295)            |
| Unallocated depreciation                    | 459,908             | -                           | -                       | (459,908)  | (468,504)            |
| <b>Total governmental activities</b>        | <b>\$ 9,319,621</b> | <b>\$ 294,982</b>           | <b>\$ 1,397,728</b>     | <b>\$ (7,626,911)</b>                                    | <b>\$(8,185,496)</b> |
| <b>General revenues:</b>                    |                     |                             |                         |  |                      |
| Property taxes, levied for general purposes |                     |                             |                         | \$ 3,282,119   | \$ 3,091,890         |
| Property taxes, levied for debt service     |                     |                             |                         | 1,189,966  | 1,203,181            |
| Investment earnings                         |                     |                             |                         | 8,901  | 4,976                |
| State sources-unrestricted                  |                     |                             |                         | 4,043,245  | 3,917,862            |
| Intermediate sources                        |                     |                             |                         | 493,435  | 454,187              |
| Other                                       |                     |                             |                         | 17,610   | 40,336               |
| <b>Total general revenues</b>               |                     |                             |                         | <b>9,035,276</b>   | <b>8,712,432</b>     |
| Change in net position                      |                     |                             |                         | 1,408,365  | 526,936              |
| Net position, beginning of year             |                     |                             |                         | (11,029,089)   | (7,335,252)          |
| Net position, end of year                   |                     |                             |                         | <b>\$ (9,620,724)</b>                                    | <b>\$(6,808,316)</b> |

The notes to the financial statements are an integral part of this statement.



# Addison Community Schools

## Balance Sheet

### Governmental Funds

June 30, 2018

With Comparative Totals for June 30, 2017

|  | General             | Debt<br>Service<br>Fund | Nonmajor<br>Funds | Total<br>Governmental Funds |                     |
|--|---------------------|-------------------------|-------------------|-----------------------------|---------------------|
|  |                     |                         |                   | 2018                        | 2017                |
| <b>Assets:</b>   |                     |                         |                   |                             |                     |
| Cash and cash equivalents                              | \$ 476,556          | \$ 681,752              | \$ 12,178         | \$ 1,170,486                | \$ 1,337,733        |
| Investments  | 432,980             | -                       | 56,741            | 489,721                     | 195,248             |
| Accounts receivable                                    | 7,838               | -                       | 2,756             | 10,594                      | 6,292               |
| Deposit  | 2,055               | -                       | -                 | 2,055                       | 933                 |
| Due from other governments                             | 964,046             | -                       | 3,431             | 967,477                     | 942,240             |
| Prepaid expenditures                                   | -                   | -                       | -                 | -                           | 66,105              |
| Inventory  | -                   | -                       | 3,145             | 3,145                       | 4,327               |
| Total assets   | <u>1,883,475</u>    | <u>681,752</u>          | <u>78,251</u>     | <u>2,643,478</u>            | <u>2,552,878</u>    |
| <b>Liabilities:</b>                                    |                     |                         |                   |                             |                     |
| Accounts payable                                       | 115,836             | -                       | 820               | 116,656                     | 195,750             |
| State aid loan payable                                 | 170,162             | -                       | -                 | 170,162                     | 156,364             |
| Due to other governmental units                        | 88,595              | -                       | 100               | 88,695                      | 95,951              |
| Unearned revenue                                       | 83,064              | -                       | -                 | 83,064                      | 40,907              |
| Salaries payable                                       | 439,176             | -                       | 723               | 439,899                     | 412,463             |
| Accrued expenditures                                   | 144,575             | -                       | 240               | 144,815                     | 137,634             |
| Total liabilities                                      | <u>1,041,408</u>    | <u>-</u>                | <u>1,883</u>      | <u>1,043,291</u>            | <u>1,039,069</u>    |
| <b>Deferred inflows of resources:</b>                  |                     |                         |                   |                             |                     |
| Unavailable revenue                                    | 59,001              | -                       | -                 | 59,001                      | 57,471              |
| <b>Fund Balances:</b>                                  |                     |                         |                   |                             |                     |
| Nonspendable   |                     |                         |                   |                             |                     |
| Prepays  | -                   | -                       | -                 | -                           | 66,105              |
| Inventory  | -                   | -                       | 3,145             | 3,145                       | 4,327               |
| Restricted for:  |                     |                         |                   |                             |                     |
| Food service   | -                   | -                       | 73,215            | 73,215                      | 48,890              |
| Debt service   | -                   | 681,752                 | -                 | 681,752                     | 635,124             |
| Capital projects                                       | -                   | -                       | 8                 | 8                           | 8                   |
| Unassigned   | 783,066             | -                       | -                 | 783,066                     | 701,884             |
| Total fund balances                                    | <u>783,066</u>      | <u>681,752</u>          | <u>76,368</u>     | <u>1,541,186</u>            | <u>1,456,338</u>    |
| Total liabilities, deferred inflows &<br>fund balances | <u>\$ 1,883,475</u> | <u>\$ 681,752</u>       | <u>\$ 78,251</u>  | <u>\$ 2,643,478</u>         | <u>\$ 2,552,878</u> |

The notes to the financial statements are an integral part of this statement.

## *Addison Community Schools*

### Reconciliations of the Fund Balances of Governmental Funds To the Net Position of Governmental Activities

June 30, 2018 and 2017

|  | 2018                  | 2017                  |
|--|-----------------------|-----------------------|
| <b>Total governmental fund balances</b>  | \$ 1,541,186          | \$ 1,456,338          |
| <p>Amounts reported for governmental activities in the statement of net position are different because.</p>              |                       |                       |
| Deferred outflows of resources - unavailable revenue   | 59,001                | 57,471                |
| Deferred outflows of resources - related to pensions   | 2,471,309             | 1,329,170             |
| Deferred outflows of resources - related to other postemployment benefits  | 241,695               |                       |
| Deferred inflows of resources - related to pensions  | (1,080,518)           | (905,335)             |
| Deferred inflows of resources - related to other postemployment benefits   | (144,678)             |                       |
| <p>Capital assets used in the governmental activities are not financial resources and are not reported in the funds.</p> |                       |                       |
| The cost of the capital asset is   | 26,903,672            | 26,903,672            |
| The accumulated depreciation is  | (9,347,750)           | (8,887,842)           |
|  | 17,555,922            | 18,015,830            |
| <p>Long term liabilities are not due and payable in the current period and are not reported in the funds.</p>            |                       |                       |
| Bonds payable  | (13,351,657)          | (14,210,725)          |
| Compensated absences   | (112,547)             | (51,088)              |
| Proportionate share of the MPSERS net pension liability  | (12,520,942)          | (12,499,977)          |
| Proportionate share of the MPSERS net OPEB liability   | (4,279,495)           |                       |
| <b>Net position of governmental activities</b>   | <b>\$ (9,620,724)</b> | <b>\$ (6,808,316)</b> |

The notes to the financial statements are an integral part of this statement.

# Addison Community Schools

## Statement of Revenues, Expenditures and Changes in Fund Balances

### Governmental Funds

For the Year Ended June 30, 2018

With Comparative Totals for the Year Ended June 30, 2017

| Revenues:  | General           | Debt              | Nonmajor<br>Funds | Total<br>Governmental Funds |                     |
|--|-------------------|-------------------|-------------------|-----------------------------|---------------------|
|  |                   | Service<br>Fund   |                   | 2018                        | 2017                |
| <b>Local sources:</b>  |                   |                   |                   |                             |                     |
| Property taxes   | \$ 3,282,119      | \$ 1,189,966      | \$ -              | \$ 4,472,085                | \$ 4,295,071        |
| Investment earnings  | 8,901             | -                 | -                 | 8,901                       | 4,976               |
| Sales, admissions and fees                                   | 139,179           | -                 | 155,803           | 294,982                     | 281,156             |
| Contributions  | 34,149            | -                 | -                 | 34,149                      | 35,916              |
| Other  | 17,610            | -                 | -                 | 17,610                      | 40,236              |
| Total local sources  | 3,481,958         | 1,189,966         | 155,803           | 4,827,727                   | 4,657,355           |
| State sources  | 4,333,492         | -                 | 15,025            | 4,348,517                   | 4,188,419           |
| Federal sources  | 197,844           | 529,809           | 330,654           | 1,058,307                   | 1,068,109           |
| Intermediate sources   | 491,905           | -                 | -                 | 491,905                     | 452,134             |
| Total revenues   | 8,505,199         | 1,719,775         | 501,482           | 10,726,456                  | 10,366,017          |
| <b>Expenditures:</b>   |                   |                   |                   |                             |                     |
| <b>Current:</b>  |                   |                   |                   |                             |                     |
| Instruction  | 5,592,838         | -                 | -                 | 5,592,838                   | 5,122,622           |
| Supporting services  | 2,616,140         | -                 | -                 | 2,616,140                   | 2,541,503           |
| Food service   | -                 | -                 | 416,736           | 416,736                     | 401,679             |
| Athletics  | 307,438           | -                 | -                 | 307,438                     | 322,116             |
| Community service  | 1,706             | -                 | -                 | 1,706                       | 1,424               |
| Interest   | -                 | 804,947           | -                 | 804,947                     | 842,747             |
| Other  | -                 | 3,200             | -                 | 3,200                       | 3,312               |
| Total expenditures   | 8,518,122         | 808,147           | 416,736           | 9,743,005                   | 9,235,403           |
| Excess (deficiency) of revenues over<br>(under) expenditures | (12,923)          | 911,628           | 84,746            | 983,451                     | 1,130,614           |
| <b>Other financing sources (uses):</b>                       |                   |                   |                   |                             |                     |
| Sale of property   | -                 | -                 | -                 | -                           | 100                 |
| Redemption of principal                                      | -                 | (865,000)         | -                 | (865,000)                   | (865,000)           |
| Payments to other public schools                             | -                 | -                 | (33,603)          | (33,603)                    | (32,904)            |
| Transfers in   | 28,000            | -                 | -                 | 28,000                      | 25,500              |
| Transfers out  | -                 | -                 | (28,000)          | (28,000)                    | (25,500)            |
| Total other financing sources (uses)                         | 28,000            | (865,000)         | (61,603)          | (898,603)                   | (897,804)           |
| Change in fund balances                                      | 15,077            | 46,628            | 23,143            | 84,848                      | 232,810             |
| <b>Fund balances:</b>  |                   |                   |                   |                             |                     |
| Beginning of year  | 767,989           | 635,124           | 53,225            | 1,456,338                   | 1,223,528           |
| End of year  | <u>\$ 783,066</u> | <u>\$ 681,752</u> | <u>\$ 76,368</u>  | <u>\$ 1,541,186</u>         | <u>\$ 1,456,338</u> |

The notes to the financial statements are an integral part of this statement.

***Addison Community Schools***

**Reconciliations of the Change in Fund Balances of Governmental Funds  
To the Change in Net Position of Governmental Activities**

**For the Years Ended June 30, 2018 and 2017**

|  | <u>2018</u>         | <u>2017</u>       |
|--|---------------------|-------------------|
| Change in fund balances - total governmental funds   | \$ 84,848           | \$ 232,810        |
| Amounts reported for governmental activities in the statement of activities are different because:   |                     |                   |
| Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.   |                     |                   |
| Depreciation expense   | (459,908)           | (468,504)         |
| Capital outlay   | -                   | -                 |
| Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available.  |                     |                   |
| Deferred inflows-Unearned revenue, beginning of year   | (57,471)            | (55,418)          |
| Deferred inflows-Unearned revenue, end of year   | 59,001              | 57,471            |
| The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on 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. This amount is the net effect of these differences in the treatment on long-term debt and related items. |                     |                   |
| Repayment of principal   | 865,000             | 865,000           |
| Amortization of bond discount  | (5,932)             | (5,932)           |
| 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.  |                     |                   |
| Net pension liability, beginning of year   | 12,499,977          | 12,350,652        |
| Net pension liability, end of year   | (12,520,942)        | (12,499,977)      |
| Net other postemployment benefit liability, beginning of year  | 4,513,919           |                   |
| Net other postemployment benefit liability, end of year  | (4,279,495)         |                   |
| Deferred outflows-pension expense, beginning of year   | (1,329,170)         | (1,159,145)       |
| Deferred outflows-pension expense, end of year   | 2,471,309           | 1,329,170         |
| Deferred outflows-other postemployment benefits expense, beginning of year   | (293,146)           |                   |
| Deferred outflows-other postemployment benefits expense, end of year   | 241,695             |                   |
| Deferred inflows-pension expense, beginning of year  | 905,335             | 799,445           |
| Deferred inflows-pension expense, end of year  | (1,080,518)         | (905,335)         |
| Deferred inflows-other postemployment benefits expense, beginning of year  | -                   |                   |
| Deferred inflows-other postemployment benefits expense, end of year  | (144,678)           |                   |
| Accrued compensated absences, beginning of year  | 51,088              | 37,787            |
| Accrued compensated absences, end of year  | (112,547)           | (51,088)          |
| Change in net position of governmental activities  | <u>\$ 1,408,365</u> | <u>\$ 526,936</u> |

The notes to the financial statements are an integral part of this statement.

**Addison Community Schools**  
**Statements of Fiduciary Assets and Liabilities**

***Agency Fund***

**June 30, 2018 and 2017**

|                           |                          | <b>Student Activities Fund</b> |                  |
|---------------------------|--------------------------|--------------------------------|------------------|
|                           |                          | <b>2018</b>                    | <b>2017</b>      |
| <b>Assets:</b>            |                          |                                |                  |
| Cash and cash equivalents |                          | \$ 41,504                      | \$ 47,267        |
| Accounts receivable       |                          | 160                            | 160              |
|                           | <b>Total assets</b>      | <b>41,664</b>                  | <b>47,427</b>    |
| <b>Liabilities:</b>       |                          |                                |                  |
|                           |                          | 41,664                         | 47,427           |
|                           | <b>Total liabilities</b> | <b>\$ 41,664</b>               | <b>\$ 47,427</b> |

The notes to the financial statements are an integral part of this statement.

# Addison Community Schools

## *Notes to Financial Statements*

June 30, 2018

### **Note 1. Summary of Significant Accounting Policies**

#### **A. Reporting Entity**

The District is governed by the Board of Education (the “Board”) of Addison Community Schools, 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 of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. 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 Statements.

#### **B. Government-Wide and Fund 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 non-fiduciary activities of the District. The government-wide financial statements categorize primary activities as either governmental or business-type. All of the District’s activities are classified as governmental activities. For the most part, the effect of interfund activity has been removed from the government-wide statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. state aid, taxes, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

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

# Addison Community Schools

## Notes to Financial Statements

June 30, 2018

### Note 1. Summary of Significant Accounting Policies (Continued)

#### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

##### Accrual Method

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.

##### Modified Accrual Method

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.

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

#### 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 *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

#### The District reports the following *nonmajor* funds:

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

The *Capital Projects Fund* accounts for the receipt of debt proceeds and transfers from the General Fund for the acquisition of capital assets or to complete construction of major capital projects.

#### The District reports the following fiduciary fund:



# **Addison Community Schools**

## ***Notes to Financial Statements***

**June 30, 2018**

The *Agency Fund* is used to account and report for assets that the District holds for student groups and activities and is custodial in nature.

# Addison Community Schools

## *Notes to Financial Statements*

June 30, 2018

### **Note 1. Summary of Significant Accounting Policies (Continued)**

#### **D. Other Accounting Policies**

The District first utilizes restricted resources when both restricted and unrestricted resources are available for use, then unrestricted resources as they are needed.

The District allocates indirect costs based on the state formula in the Food Service Fund.

#### **Use of Estimates**

The process of preparing basic 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 expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

#### **Cash and cash equivalents**

Cash and equivalents include amounts in cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

#### **Investments**

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

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; 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. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

#### **Inventories and Prepaids**

Inventories are valued at cost (first-in, first-out). Inventories in the Special Revenue Funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

# Addison Community Schools

## Notes to Financial Statements

June 30, 2018

### Note 1. Summary of Significant Accounting Policies (Continued)

#### D. Other Accounting Policies (Continued)

##### Capital Assets

The District's capitalization policy is to capitalize individual amounts equal to or exceeding \$5,000.

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The cost 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.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

|                          |              |
|--------------------------|--------------|
| Buildings and additions  | 50 years     |
| Furniture and equipment  | 5 – 20 years |
| Transportation equipment | 8 years      |

##### Deferred outflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District only has two items that qualify for reporting in this category. They are the deferred charges for pension expense and other postemployment benefits expense reported in the government-wide statement of net position. Deferred charges on pension expense and other postemployment benefits expense are used to calculate future years' pension expense.

##### Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing resources. Premiums received in 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 proceeds received, are reported as debt service expenditures.

##### Compensated Absences

Employees can accumulate compensated absences by not using the number of sick days allotted each year. The liability was calculated using the vesting method, in which leave days for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination.

# Addison Community Schools

## *Notes to Financial Statements*

June 30, 2018

1.

### **Note 1. Summary of Significant Accounting Policies (Continued)**

#### **D. Other Accounting Policies (Continued)**

##### **Deferred inflows of resources**

In addition to liabilities, the statement of financial 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 one item, which arises only under a modified accrual basis of accounting in the fund financial statements; and another that qualifies for reporting on the government wide statement of net position in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues primarily from one source: receipts that exceeded 60 days of year end. The deferred inflows from pension expense and other postemployment benefits are presented on the face of the government wide statement of net position. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

##### **Fund Equity**

Fund balances on the Governmental Fund Balance Sheet are classified as either nonspendable, restricted, assigned or unassigned. The term nonspendable indicates that a portion of the fund balance that will either never convert to cash or not convert within the current period. General fund reports a portion of fund balance as nonspendable for prepaid expenditures and the food service report reports an amount for inventory. Restricted fund balances are reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. The assigned fund balance represents the portion of fund balance that is constrained to specific purposes intended to be spent within the purpose of the fund. The unassigned fund balance represents the residual classification for the general fund.

When the District incurs and expenditure for purposes which various fund balance classifications could be used, it is the District's policy to use restricted fund balance first, followed by committed fund balance, assigned fund balance, and then unassigned fund balance.

##### **Pensions**

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

##### **Postemployment Benefits Other than Pensions**

For purposes of measuring the net other postemployment benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and

# **Addison Community Schools**

## ***Notes to Financial Statements***

**June 30, 2018**

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.

# Addison Community Schools

## Notes to Financial Statements

June 30, 2018

### Note 1. Summary of Significant Accounting Policies (Concluded)

#### D. Other Accounting Policies (Concluded)

##### 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. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

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-Principal Residence Exemption               | 18.0000      |
| Commercial Personal Property                    | 6.0000       |
| Debt Service Fund:                              |              |
| Principal and Non-Principal Residence Exemption | 2.850        |

##### State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2018, the foundation allowance was based on pupil membership counts taken in February 2017 and September of 2017.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on principal residence exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for commercial personal property tax. The state revenue is recognized during the foundation period and is funded through payments from October 2017 to August 2018. Thus, the unpaid portion at June 30<sup>th</sup> is reported as due from other governments.

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

# Addison Community Schools

## Notes to Financial Statements

June 30, 2018

### Note 2. Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General, Special Revenue, and Debt Service Funds.

Appropriations lapse at the end of the fiscal year, even if they have related encumbrances. Encumbrances represent commitments related to unperformed contracts for goods or services. 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 (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
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. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriation, the last one approved prior to June 30, 2018. The District does not consider these amendments to be significant.
7. On the Budgetary Comparison Schedule, one function exceeded budget for the General Fund. Total expenditures did not exceed the amount appropriated in any fund.

### Note 3. Deposits and Investments

#### Deposits

*Custodial Credit Risk:* Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2018, \$1,115,706 of the District's bank balance of \$1,365,706 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized

\$ 1,115,706

# Addison Community Schools

## Notes to Financial Statements

June 30, 2018

### Note 3. Deposits and Investments (Continued)

#### Investments

The District's investments include deposits in Michigan Cooperative Liquid Assets Securities System (CLASS). Michigan CLASS is a Participant controlled trust available only to Michigan municipalities, school districts and public agencies for the purpose of enabling such entities to cooperate in the investment of their available funds. Michigan CLASS operates like a money market mutual fund with each share valued at \$1.00.

The District also invests in the Michigan Liquid Asset Fund (MILAF) and MILAF+ Portfolio. MILAF is a local government investment pool. MILAF may only invest in instruments as authorized by Sections 622, 1221 and 1223 of the Michigan school code. MILAF shares are distributed by PFM Fund Distributors, Inc., member Financial Industry Regulatory Authority (FINRA). MILAF reports the fair value of the District's investment is the same as the value of the pool shares.

The District held the following investments at June 30, 2018:

|                            | Weighted<br>Average<br>Maturity | Fair<br>Value              | Standard<br>& Poor<br>Rating |
|----------------------------|---------------------------------|----------------------------|------------------------------|
| Investment:                |                                 |                            |                              |
| Michigan CLASS             | 52.00                           | \$ 488,909                 | AAAm                         |
| Michigan Liquid Asset Fund | 53.00                           | 812                        | *                            |
|                            |                                 | \$ 489,721                 |                              |
|                            | *S&P<br>Rating                  | Percentage<br>of Portfolio |                              |
|                            | AA+                             | 12.19%                     |                              |
|                            | A-1+                            | 41.29%                     |                              |
|                            | A-1                             | 41.26%                     |                              |
|                            | Exempt                          | 5.26%                      |                              |



# Addison Community Schools

## *Notes to Financial Statements*

June 30, 2018

*Credit Risk:* The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The CLASS investment is rated AAAM by Standard and Poor's Ratings Services. The District's MILAF investment consists of the Cash Management Class and the MAX Class of the MILAF+ portfolio and is rated as classified above by Standard and Poor's Ratings Services.

*Concentration of credit risk:* The risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy is to diversify investments to minimize the impact of potential losses. As of June 30, 2018, concentrations of 5% or higher were 0.17% of investments at MILAF and 99.83% of investments at Michigan CLASS.

*Interest Rate Risk:* The District will minimize interest rate risk, which is the risk that the market value of securities invested will fall due to changes in market interest rates, by: structuring the investments so that they mature to meet cash requirements for ongoing operations and thus avoiding the need to sell in the open market; and by investing in shorter-term securities. The weighted average maturity of the securities underlying the CLASS investment was 52 days. The weighted average maturity of the MILAF portfolio at September 30, 2017 was 53 days.

# Addison Community Schools

## *Notes to Financial Statements*

June 30, 2018

### **Note 3. Deposits and Investments (Concluded)**

#### **Valuation of Investments**

Michigan CLASS Securities, other than repurchase agreements, are valued at the most recent market bid price as obtained from one or more market makers for such securities. Repurchase agreements are recorded at cost, which approximates market value.

MILAF+ Portfolio securities are valued at amortized cost, which approximates market value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium. It is the Fund's policy to compare amortized cost and fair values of the securities periodically throughout each month and as of the last business day of each month. Fair value is determined by reference to quoted market prices.

In accordance with the authoritative guidance on fair value measurements and disclosures under GAAP, each investment agency discloses the fair value of the investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure the fair value. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (level 3 measurements). The guidance establishes three levels of the fair value hierarchy as follows:

**Level 1** – Quoted prices in active markets for identical assets.

**Level 2** – Inputs other than quoted prices that are observable for the asset, including quoted prices for similar investments based on interest rates, credit risk and like factors.

**Level 3** – Unobservable inputs for the assets, including the Portfolios' own assumption for determining fair value.

Investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

There have been no significant changes in valuation techniques used in valuing any such positions held by Michigan CLASS since the beginning of the fiscal year. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The inputs used as of June 30, 2018 to value Michigan CLASS's investments in securities and other financial instruments was categorized as Level 2. There were no transfers between Level 1 and Level 2 during the year ending June 30, 2018.

MILAF money market securities are valued using amortized cost, as outlined in Rule 2a-7 under the Investment Company Act of 1940, however, the MILAF+ Portfolio is not registered under this act. Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities held by the MILAF+ Portfolio are categorized as Level 2. There were no transfers between levels during the year ended September 30, 2017.

# Addison Community Schools

## Notes to Financial Statements

June 30, 2018

### Note 4. Receivables

Receivables as of June 30, 2018 for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

|                            | <b>General<br/>Fund</b> | <b>Nonmajor<br/>Funds</b> | <b>Total</b>      |
|----------------------------|-------------------------|---------------------------|-------------------|
| Accounts receivable        | \$ 7,838                | \$ 2,756                  | \$ 10,594         |
| Due from other governments | 964,046                 | 3,431                     | 967,477           |
|                            | <u>\$ 971,884</u>       | <u>\$ 6,187</u>           | <u>\$ 978,071</u> |

### Note 5. Capital Assets

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

|   | <b>Primary Government</b>    |                     |                    | <b>Ending<br/>Balance</b> |
|---|------------------------------|---------------------|--------------------|---------------------------|
|   | <b>Beginning<br/>Balance</b> | <b>Additions</b>    | <b>Retirements</b> |                           |
| <b>Governmental activities:</b>             |                              |                     |                    |                           |
| Land improvements                           | \$ 2,370,477                 | \$ -                | \$ -               | \$ 2,370,477              |
| Buildings and improvements                  | 23,802,009                   | -                   | -                  | 23,802,009                |
| Machinery and equipment                     | 689,686                      | -                   | -                  | 689,686                   |
| Transportation equipment                    | 41,500                       | -                   | -                  | 41,500                    |
| Depreciable capital assets                  | <u>26,903,672</u>            | <u>-</u>            | <u>-</u>           | <u>26,903,672</u>         |
| <b>Less accumulated depreciation for:</b>   |                              |                     |                    |                           |
| Land improvements                           | 2,366,941                    | 1,136               | -                  | 2,368,077                 |
| Buildings and improvements                  | 5,930,958                    | 449,200             | -                  | 6,380,158                 |
| Machinery and equipment                     | 555,969                      | 7,822               | -                  | 563,791                   |
| Transportation equipment                    | 33,974                       | 1,750               | -                  | 35,724                    |
| Total accumulated depreciation              | <u>8,887,842</u>             | <u>459,908</u>      | <u>-</u>           | <u>9,347,750</u>          |
| Governmental activities capital assets, net | <u>\$18,015,830</u>          | <u>\$ (459,908)</u> | <u>\$ -</u>        | <u>\$17,555,922</u>       |

Depreciation for the fiscal year ended June 30, 2018 and 2017 amounted to \$459,908 and \$468,504, respectively. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

# Addison Community Schools

## Notes to Financial Statements

June 30, 2018

### Note 6. Short Term Debt-State Aid Anticipation Notes

The District issued a state aid anticipation note of \$1,200,000 and pledged its State aid as collateral. In the event of unavailability or insufficiency of State school aid, the note is payable from taxes levied by the District. The balance at June 30, 2018 was \$170,162. The notes have an interest rate of 1.27% and maturity date of July 2018. The interest expense for these notes were \$10,136 and \$2,912 for the years ended June 30, 2018 and 2017, respectively. The District refinanced its State School aid anticipation note in the 2018-19 fiscal year.

Short-term debt activity for the fiscal year ended June 30, 2018 is as follows:

|                             | <u>Beginning<br/>Balance</u> | <u>Issued</u> | <u>Redeemed</u> | <u>Ending<br/>Balance</u> |
|-----------------------------|------------------------------|---------------|-----------------|---------------------------|
| State aid anticipation note | \$ 156,364                   | \$ 1,200,000  | \$ (1,186,202)  | \$ 170,162                |

### Note 7. Long-Term Debt

The District issued general obligation bonds, 2010 School Building and Site Bonds, Series A, in the amount of \$15,000,000 (federally taxable-Qualified School Construction Bonds-direct payment). The proceeds are to be used for the purpose of erecting, equipping and furnishing additions to and remodeling, equipping and re-equipping and furnishing and re-furnishing a school building; acquiring, installing and equipping and re-equipping school buildings for technology; developing and improving playgrounds, athletic fields and athletic facilities; preparing, developing and improving sites; and paying the costs of issuing the bonds.

The following is a schedule of repayment for serial bonds:

| <u>Year ended<br/>June 30,</u> | <u>Principal</u>  | <u>Interest</u>   | <u>Total</u>        |
|--------------------------------|-------------------|-------------------|---------------------|
| 2019                           | \$ -              | \$ 477,540        | \$ 477,540          |
| 2021                           | 885,000           | 391,758           | 1,276,758           |
|                                | <u>\$ 885,000</u> | <u>\$ 869,298</u> | <u>\$ 1,754,298</u> |

Term bonds are due as follows:

| <u>Year ended<br/>June 30,</u> | <u>Principal</u>    | <u>Interest</u>     | <u>Total</u>         |
|--------------------------------|---------------------|---------------------|----------------------|
| 2020                           | \$ 1,740,000        | \$ 477,540          | \$ 2,217,540         |
| 2022                           | -                   | 346,800             | 346,800              |
| 2023                           | -                   | 346,800             | 346,800              |
| 2024                           | -                   | 346,800             | 346,800              |
| 2025                           | -                   | 346,800             | 346,800              |
| 2026                           | -                   | 346,800             | 346,800              |
| 2027                           | 5,780,000           | 346,800             | 6,126,800            |
|                                | <u>\$ 7,520,000</u> | <u>\$ 2,558,340</u> | <u>\$ 10,078,340</u> |

# Addison Community Schools

## Notes to Financial Statements

June 30, 2018

**Note 7. Long-Term Debt** (Continued)

The District issued general obligation bonds, 2010 School Building and Site Bonds, Series B, in the amount of \$4,990,000 (federally taxable-Build America Bonds-direct payment). The proceeds are to be used for the purpose of erecting, equipping and furnishing additions to and remodeling, equipping and re-equipping and furnishing and re-furnishing a school building; acquiring, installing and equipping and re-equipping school buildings for technology; developing and improving playgrounds, athletic fields and athletic facilities; preparing, developing and improving sites; and paying the costs of issuing the bonds. Interest of \$286,925 will be due each year through June 30, 2027.

The following is a schedule of repayment:

| <b>Year ended<br/>June 30,</b> | <b>Principal</b>    | <b>Interest</b>     | <b>Total</b>        |
|--------------------------------|---------------------|---------------------|---------------------|
| 2028                           | \$ 555,000          | \$ 286,925          | \$ 841,925          |
| 2029                           | 575,000             | 255,013             | 830,013             |
| 2030                           | 595,000             | 221,950             | 816,950             |
| 2031                           | 615,000             | 187,738             | 802,738             |
| 2032                           | 635,000             | 152,375             | 787,375             |
| 2033                           | 650,000             | 115,863             | 765,863             |
| 2034                           | 670,000             | 78,488              | 748,488             |
| 2035                           | 695,000             | 39,963              | 734,963             |
|                                | <u>\$ 4,990,000</u> | <u>\$ 1,338,313</u> | <u>\$ 6,328,313</u> |

Total interest paid on all bonds for the years ended June 30, 2018 and 2017 were \$804,947 and \$842,747, respectively.

Debt service requirements at June 30, 2018 were as follows:

| <b>Year ended<br/>June 30,</b> | <b>Principal</b>     | <b>Interest</b>     | <b>Total</b>         |
|--------------------------------|----------------------|---------------------|----------------------|
| 2019                           | \$ -                 | \$ 477,540          | \$ 477,540           |
| 2020                           | 1,740,000            | 477,540             | 2,217,540            |
| 2021                           | 885,000              | 391,758             | 1,276,758            |
| 2022                           | -                    | 346,800             | 346,800              |
| 2023                           | -                    | 346,800             | 346,800              |
| 2024-2028                      | 6,335,000            | 1,674,125           | 8,009,125            |
| 2029-2033                      | 3,070,000            | 932,938             | 4,002,938            |
| 2034-2035                      | 1,365,000            | 118,450             | 1,483,450            |
|                                | <u>\$ 13,395,000</u> | <u>\$ 4,765,951</u> | <u>\$ 18,160,951</u> |

# Addison Community Schools

## Notes to Financial Statements

June 30, 2018

### Note 7. Long-Term Debt (Concluded)

#### Compensated Absences

Employees can accumulate compensated absences by not using the number of sick day allotted each year. The vested liability for compensated absences for teachers is based on the amount specified in the employee's contract multiplied by the number of days accumulated by employees who have been employed by the District for twenty or more years. Other support staff have negotiated the daily rate in each employee's contract. The current portion represents the estimated amount that will be paid to employees in the next fiscal year.

The following is a schedule of the governmental long-term obligations for the District for the year ended June 30, 2018:

|                          | <u>Bonds</u>         | <u>Compensated<br/>Absences</u> | <u>Total</u>         |
|--------------------------|----------------------|---------------------------------|----------------------|
| Balance July 1, 2017     | \$ 14,260,000        | \$ 51,088                       | \$ 14,311,088        |
| Increases                |                      | 66,459                          | 66,459               |
| Decreases                | (865,000)            | (5,000)                         | (870,000)            |
| Balance June 30, 2018    | 13,395,000           | 112,547                         | 13,507,547           |
| Less: current portion    | 870,000              | 19,915                          | 889,915              |
| Total due after one year | <u>\$ 12,525,000</u> | <u>\$ 92,632</u>                | <u>\$ 12,617,632</u> |

# Addison Community Schools

## Notes to Financial Statements

June 30, 2018

### Note 8. Interfund Transfers

Interfund transfers are used to move the indirect costs incurred in the nonmajor food service fund to the general fund that expended them; and to use unrestricted revenues collected in the general fund to finance various programs accounted for in the nonmajor community service fund in accordance with budgetary authorizations.

A schedule of interfund transfers follows:

| <u>Fund</u> | <u>Transfers In</u> | <u>Fund</u> | <u>Transfers Out</u> |
|-------------|---------------------|-------------|----------------------|
| General     | \$ 28,000           | General     | \$ -                 |
| Nonmajor    | -                   | Nonmajor    | 28,000               |
| Totals      | <u>\$ 28,000</u>    |             | <u>\$ 28,000</u>     |

### Note 9. Employee Retirement System Defined Benefit Plan

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

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

The System's financial statements are available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

#### Benefits Provided

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

A DB member plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights

# **Addison Community Schools**

## ***Notes to Financial Statements***

**June 30, 2018**

to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.



# Addison Community Schools

## Notes to Financial Statements

June 30, 2018

### Note 9. Employee Retirement System Defined Benefit Plan (Continued)

#### Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, after June 30, 2010 any member of MPSERS 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 transferrable 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 FAC and years of service. Disability and survivor benefits are available to Pension Plus 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.

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 they 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 thereafter would include a 1.25% pension 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.

Option 4 members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the DC plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to a 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 contribution 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 contribution 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

# **Addison Community Schools**

## ***Notes to Financial Statements***

**June 30, 2018**

pension (calculated based on years of service and FAC as of the day before their transition date and a 1.5% pension factor).

# Addison Community Schools

## *Notes to Financial Statements*

June 30, 2018

### **Note 9. Employee Retirement System Defined Benefit Plan (Continued)**

#### **Pension Reform 2012 (Concluded)**

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 described above and a DC plan that provides a 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period, as reported to ORS, to elect to opt out of the Pension Plus plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus plan. If the elect to opt out of the Pension Plus plan, their participation in the DC plan will be retroactive to their date of hire.

#### **Pension Reform 2017**

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. This law establishes a new hybrid plan for Michigan public school employees who first work on or after February 1, 2018. This plan is similar to the Pension Plus retirement plan established in 2010 (and changed again in 2012) in that it will have both a pension component and a savings component. Eligibility for pension benefits remains the same as Pension Plus at 60 years old with at least 10 years of service. Contributions are made in the savings component by both the employer and employee and are deposited into a 401(k) and/or 457 tax deferred account.

An employee must affirmatively elect the new hybrid plan to participate. If the employee makes no choice, as mentioned above, the default set by the law means the employee will be enrolled in the DC plan. The Office of Retirement Services will provide each employee with a summary of the benefit options available.

#### **Regular Retirement**

The pension benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation (FAC). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period. For a MIP member, who became a member of MPSERS prior to July 1, 2010, the averaging period is 36 consecutive months. For a Pension Plus member, who became a member of MPSERS after June 30, 2010, the averaging period is 60 consecutive months. For a Basic Plan member, this period is the 60 consecutive months yielding the highest total wages. 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 and is shown below:

# Addison Community Schools

## Notes to Financial Statements

June 30, 2018

| Plan                   | Eligibility Based on Years of Service        | Vesting  |
|------------------------|--|----------|
| Basic                  | Age 55 with 30 years or age 60 with 10 years | 10 years |
| Member Investment Plan | Age 46 with 30 years or age 60 with 10 years | 10 years |
| Pension Plus           | Age 60 with 10 years                         | 4 years  |
| Defined Contribution   | Age 46 with 30 years or age 60 with 10 years | 4 years  |

### Note 9. Employee Retirement System Defined Benefit Plan (Continued)

#### Contributions and Funded Status

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

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

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

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

Required contributions to the pension plan from Addison Community Schools were \$1,125,061 for the year ended September 30, 2017. The District's contribution to MPSERS under all pension plans for the year ended June 30, 2018 was \$977,576. See the schedule of pension contributions on page 46 for additional information.

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

At June 30, 2018, the District reported a liability of \$12,520,942 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. The District's proportion of the net pension liability was determined by dividing each

# **Addison Community Schools**

## ***Notes to Financial Statements***

**June 30, 2018**

employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was .04831682%, which was a decrease of .0017849% from its proportion measured as of September 30, 2016 (.05010175%).

# Addison Community Schools

## Notes to Financial Statements

June 30, 2018

### Note 9. Employee Retirement System Defined Benefit Plan (Continued)

#### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

For the year ended June 30, 2018, the District recognized pension expense of \$1,186,611. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|---|---|--|
| Differences between expected and actual experience  |   |  |
|   | \$ 108,816                                    | \$ 61,438                                    |
| Changes of assumptions  |   |  |
|   | 1,371,769                                     | -  |
| Net difference between projected and actual earnings on pension plan investments                                    | -   | 598,583                                      |
| Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions |   |  |
|   | 37,397  | 420,497                                      |
| Employer contributions subsequent to the measurement date   |   |  |
|   | 953,327                                       |  |
| Total   | <u>\$ 2,471,309</u>                           | <u>\$ 1,080,518</u>                          |

# Addison Community Schools

## Notes to Financial Statements

June 30, 2018

### Note 9. Employee Retirement System Defined Benefit Plan (Continued)

#### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Concluded)

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <b>Plan Year<br/>Ended<br/>September 30,</b> | <b>Amount</b> |
|--|---------------|
| 2018   | \$ 87,683     |
| 2019   | 71,346        |
| 2020   | 283,764       |
| 2021   | 27,804        |

#### Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

# Addison Community Schools

## *Notes to Financial Statements*

June 30, 2018

### Summary of Actuarial Assumptions

|                                     |   |
|-------------------------------------|---|
| Valuation Date:                     | September 30, 2016                            |
| Actuarial Cost Method               | Entry Age, Normal                             |
| Wage Inflation Rate:                | 3.5%  |
| Investment Rate of Return           |   |
| - MIP and Basic Plans (Non-Hybrid): | 7.5%  |
| - Pension Plus Plan (Hybrid):       | 7.0%  |
| Projected Salary Increases:         | 3.5 - 12.3%, including wage inflation at 3.5% |
| Cost-of-Living Pension Adjustments: | 3% Annual Non-Compounded for MIP Members      |
| Healthcare Cost Trend Rate:         | 8.5% Year 1 graded to 3.5% Year 12            |

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



# Addison Community Schools

## Notes to Financial Statements

June 30, 2018

### Note 9. Employee Retirement System Defined Benefit Plan (Continued)

#### Actuarial Assumptions (Concluded)

##### Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years is 4.5188.
- Recognition period for assets in years is 5.000.
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at [www.michigan.gov/orschools](http://www.michigan.gov/orschools).

#### Long-Term Expected Return on Plan Assets

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

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

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

#### Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension plan investment, net of

# **Addison Community Schools**

## ***Notes to Financial Statements***

**June 30, 2018**

pension plan investment expense, was 13.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

# Addison Community Schools

## Notes to Financial Statements

June 30, 2018

### Note 9. Employee Retirement System Defined Benefit Plan (Concluded)

#### Discount Rate

A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

| <b>1% Decrease<br/>(Non-Hybrid/Hybrid)<br/>6.5% / 6.0%</b> | <b>Current Single<br/>Discount Rate<br/>Assumption<br/>(Non-Hybrid/Hybrid)<br/>7.5% / 7.0%</b> | <b>1% Increase<br/>(Non-Hybrid/Hybrid)<br/>8.5% / 8.0%</b> |
|--|--|--|
| \$ 16,310,623  | \$ 12,520,942  | \$ 9,330,272   |

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

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

### Note 10. Employee Retirement System Other Postemployment Benefit (OPEB) Plan

#### Plan Description

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

# Addison Community Schools

## *Notes to Financial Statements*

June 30, 2018

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

### **Note 10. Employee Retirement System Other Postemployment Benefit (OPEB) Plan (Continued)**

#### **Plan Description (Concluded)**

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

The System's financial statements are available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

#### **Benefits Provided**

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

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

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

#### **Contributions**

# **Addison Community Schools**

## ***Notes to Financial Statements***

**June 30, 2018**

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

# Addison Community Schools

## Notes to Financial Statements

June 30, 2018

### Note 10. Employee Retirement System Other Postemployment Benefit (OPEB) Plan (Continued)

#### Contributions (Concluded)

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2017 fiscal year.

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

| <b>Benefit Structure</b>       | <b>Member</b> | <b>Employer</b> |
|--------------------------------|---------------|-----------------|
| Premium Subsidy                | 3.0%          | 5.91%           |
| Personal Healthcare Fund (PHF) | 0.0%          | 5.69%           |

Required contributions to the OPEB plan from the District were \$376,238 for the year ended September 30, 2017.

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

At June 30, 2018, the District reported a liability of \$4,279,495 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was .00048326 percent, which was an increase of 0 percent from its proportion measured as of October 1, 2016.

# Addison Community Schools

## Notes to Financial Statements

June 30, 2018

### Note 10. Employee Retirement System Other Postemployment Benefit (OPEB) Plan (Concluded)

#### OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Concluded)

For the year ending June 30, 2018, the District recognized OPEB expense of \$286,526. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|   | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|---|---|--|
| Differences between expected and actual experience  | \$ -  | \$ 45,564                                    |
| Changes of assumptions  | -   | -  |
| Net difference between projected and actual earnings on OPEB plan investments                                 | -   | 99,114                                       |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 1,260   | -  |
| Employer contributions subsequent to the measurement date   | 240,435                                       |  |
| Total   | <u>\$ 241,695</u>                             | <u>\$ 144,678</u>                            |

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| <u>Plan Year Ended<br/>September 30,</u> | <u>Amount</u> |
|--|---------------|
| 2018                                     | \$ (34,681)   |
| 2019                                     | (34,681)      |
| 2020                                     | (34,681)      |
| 2021                                     | (34,681)      |
| 2022                                     | (4,694)       |

#### Actuarial Assumptions

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

# Addison Community Schools

## Notes to Financial Statements

June 30, 2018

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

### Note 10. Employee Retirement System Other Postemployment Benefit (OPEB) Plan (Continued)

#### Actuarial Assumptions (Continued)

Additional information as of the latest actuarial valuation follows:

#### Summary of Actuarial Assumptions

|                                     |   |
|-------------------------------------|---|
| Valuation Date:                     | September 30, 2015                            |
| Actuarial Cost Method               | Entry Age, Normal                             |
| Wage Inflation Rate:                | 3.5%  |
| Investment Rate of Return           |   |
| - MIP and Basic Plans (Non-Hybrid): | 8.0%  |
| - Pension Plus Plan (Hybrid):       | 7.0%  |
| Projected Salary Increases:         | 3.5 - 12.3%, including wage inflation at 3.5% |
| Healthcare Cost Trend Rate:         | 7.5% Year 1 graded to 3.5% Year 12            |

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

#### Other Assumptions:

|                                 |   |
|---------------------------------|---|
| Opt Out Assumptions             | 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan |
| Survivor Coverage               | 80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death                                  |
| Coverage Election at Retirement | 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.   |

#### Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.



# **Addison Community Schools**

## ***Notes to Financial Statements***

**June 30, 2018**

- *Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [5.4744 for non-university employers or 1.4186 for university employers]*
- *Recognition period for assets in years is 5.0000*
- *Full actuarial assumptions are available in the 2017 MPSEERS Comprehensive Annual Financial Report found on the ORS website at [www.michigan.gov/orschools](http://www.michigan.gov/orschools).*

# Addison Community Schools

## Notes to Financial Statements

June 30, 2018

### Note 10. Employee Retirement System Other Postemployment Benefit (OPEB) Plan (Continued)

#### Long-Term Expected Return on Plan Assets

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

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

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

#### Rate of Return

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

#### Discount Rate

A discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

#### Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate

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

# Addison Community Schools

## *Notes to Financial Statements*

June 30, 2018

| <b>1% Decrease</b> | <b>Current Discount Rate</b> | <b>1% Increase</b> |
|--------------------|------------------------------|--------------------|
| <b>6.5%</b>        | <b>7.5%</b>                  | <b>8.5%</b>        |
| \$ 5,012,525       | \$ 4,279,495                 | \$ 3,657,382       |

# Addison Community Schools

## Notes to Financial Statements

June 30, 2018

### Note 10. Employee Retirement System Other Postemployment Benefit (OPEB) Plan (Continued)

#### Sensitivity of the District's proportionate share of the net OPEB liability to Healthcare Cost Trend Rate

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

| <b>1% Decrease</b> | <b>Current Healthcare</b> | <b>1% Increase</b> |
|--------------------|---------------------------|--------------------|
| <b>6.5%</b>        | <b>Cost Trend Rate</b>    | <b>8.5%</b>        |
| <b>7.5%</b>        | <b>7.5%</b>               | <b>8.5%</b>        |
| \$ 3,624,157       | \$ 4,279,495              | \$ 5,023,586       |

#### OPEB Plan Fiduciary Net Position

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

### Note 11. Operating Lease

The District has entered into a lease agreement with GreenLeaf Funding, LLC for the use of copiers. The lease term is sixty (60) months, beginning December 2017, with payments of \$733 per month. The District is also obligated by a copier lease with Leaf Capital Funding, LLC for sixty (60) months, beginning December 2016, with payments of \$416 per month. The rental costs for the year ended June 30, 2018 and 2017 were \$13,860 and \$14,640, respectively.

The following is a schedule of operating lease payments:

| <b>Year Ended</b> | <b>Payments</b>  |
|-------------------|------------------|
| <b>June 30,</b>   |                  |
| 2019              | \$ 13,785        |
| 2020              | 13,785           |
| 2021              | 13,785           |
| 2022              | 11,288           |
| 2023              | 4,396            |
|                   | <u>\$ 57,039</u> |

### Note 12. Commitments and Contingencies

The District's adopted a resolution to finance energy savings and solar power project of \$1,869,700 before June 30, 2018 for projects to be completed in the next fiscal year.

# **Addison Community Schools**

## ***Notes to Financial Statements***

**June 30, 2018**

### **Note 13. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. The premiums are accrued based on the ultimate cost of the experience to date of participating members. The District cannot estimate any losses from reported and unreported claims at June 30, 2018.

In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The likelihood of additional District liability is minimal.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2018 or any of the prior three years.

### **Note 14. Net Position Restricted by Enabling Legislation**

#### **Net Position**

The government-wide statement of net position reports \$681,760 of restricted net position at June 30, 2018, all of which is restricted by enabling legislation.

### **Note 15. New Accounting Standard**

For the year ended June 30, 2018 the District implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, issued by the GASB in June 2015. The Statement requires governments that participate in defined benefit other post-employment benefit (OPEB) plans to report in the Statement of Net Position any 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. Statement 75 requires cost-sharing employers (the District) to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan.

As a result, the beginning net position must be restated to adjust for the beginning balance of the net OPEB liability as follows:

# Addison Community Schools

## *Notes to Financial Statements*

June 30, 2018

|   |    |                            |
|---|----|----------------------------|
| Net position as previously stated at July 1, 2017 | \$ | (6,808,316)                |
| Adoption of GASB Statement 75                     |    |                            |
| Net OPEB liability                                |    | (4,513,919)                |
| Deferred outflows                                 |    | <u>293,146</u>             |
| Net position as restated at July 1, 2017          | \$ | <u><u>(11,029,089)</u></u> |

**Required Supplementary Information**

**Addison Community Schools**

**Required Supplementary Information**

**Budgetary Comparison Schedule  
General Fund**

**For the Year Ended June 30, 2018**

|  | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>     | <b>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</b> |
|--|----------------------------|-------------------------|-------------------|---|
| <b>Revenues:</b>   |                            |                         |                   |   |
| Local sources  | \$ 3,275,320               | \$ 3,481,533            | \$ 3,481,958      | \$ 425  |
| State sources  | 4,237,384                  | 4,330,880               | 4,333,492         | 2,612   |
| Federal sources  | 179,821                    | 197,890                 | 197,844           | (46)  |
| Intermediate sources   | 413,534                    | 491,905                 | 491,905           | -   |
| Total revenues   | <u>8,106,059</u>           | <u>8,502,208</u>        | <u>8,505,199</u>  | <u>2,991</u>  |
| <b>Expenditures:</b>   |                            |                         |                   |   |
| <b>Instruction:</b>  |                            |                         |                   |   |
| Basic programs   | 3,921,790                  | 4,192,523               | 4,192,954         | (431)   |
| Added needs  | 1,347,123                  | 1,400,408               | 1,399,884         | 524   |
| Total instruction  | <u>5,268,913</u>           | <u>5,592,931</u>        | <u>5,592,838</u>  | <u>93</u>   |
| <b>Supporting services:</b>                                  |                            |                         |                   |   |
| Pupil  | 191,479                    | 199,816                 | 199,816           | -   |
| Instructional staff  | 16,614                     | 4,776                   | 4,776             | -   |
| General administration                                       | 247,256                    | 288,652                 | 288,652           | -   |
| School administration  | 466,089                    | 419,369                 | 419,369           | -   |
| Business services  | 152,462                    | 181,508                 | 181,508           | -   |
| Operation & maintenance                                      | 917,536                    | 880,299                 | 880,299           | -   |
| Pupil transportation   | 489,104                    | 505,244                 | 505,244           | -   |
| Technology   | 140,806                    | 134,310                 | 134,310           | -   |
| Other  | 2,800                      | 2,166                   | 2,166             | -   |
| Community services   | 1,000                      | 1,706                   | 1,706             | -   |
| Athletics  | 298,975                    | 307,438                 | 307,438           | -   |
| Total support services                                       | <u>2,924,121</u>           | <u>2,925,284</u>        | <u>2,925,284</u>  | <u>-</u>  |
| Total expenditures   | <u>8,193,034</u>           | <u>8,518,215</u>        | <u>8,518,122</u>  | <u>93</u>   |
| Excess (deficiency) of revenues over<br>(under) expenditures | <u>(86,975)</u>            | <u>(16,007)</u>         | <u>(12,923)</u>   | <u>3,084</u>  |
| <b>Other financing sources (uses):</b>                       |                            |                         |                   |   |
| Transfers in   | 20,000                     | 28,000                  | 28,000            | -   |
| Total other financing sources (uses)                         | <u>20,000</u>              | <u>28,000</u>           | <u>28,000</u>     | <u>-</u>  |
| Change in fund balance                                       | (66,975)                   | 11,993                  | 15,077            | 3,084   |
| <b>Fund balance:</b>   |                            |                         |                   |   |
| Beginning of year  |                            |                         | <u>767,989</u>    |   |
| End of year  |                            |                         | <u>\$ 783,066</u> |   |

The notes to the financial statements are an integral part of this statement.



**Addison Community Schools**

**Required Supplementary Information**

**Budgetary Comparison Schedule  
Debt Service Fund**

**For the Year Ended June 30, 2018**

|  | <b>Original<br/>Budget</b> | <b>Final<br/>Budget</b> | <b>Actual</b>     | <b>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</b> |
|--|----------------------------|-------------------------|-------------------|---|
| <b>Revenues:</b>   |                            |                         |                   |   |
| Local sources  | \$ 1,176,463               | \$ 1,189,966            | \$ 1,189,966      | \$ -  |
| Federal sources  | 530,000                    | 529,809                 | 529,809           | -   |
| Total revenues   | <u>1,706,463</u>           | <u>1,719,775</u>        | <u>1,719,775</u>  | <u>-</u>  |
| <b>Expenditures:</b>   |                            |                         |                   |   |
| <b>Current:</b>  |                            |                         |                   |   |
| Interest   | 804,947                    | 804,947                 | 804,947           | -   |
| Other  | 3,320                      | 3,200                   | 3,200             | -   |
| Total expenditures   | <u>808,267</u>             | <u>808,147</u>          | <u>808,147</u>    | <u>-</u>  |
| Excess (deficiency) of revenues over<br>(under) expenditures | <u>898,196</u>             | <u>911,628</u>          | <u>911,628</u>    | <u>-</u>  |
| <b>Other financing sources (uses):</b>                       |                            |                         |                   |   |
| Redemption of principal                                      | <u>(865,000)</u>           | <u>(865,000)</u>        | <u>(865,000)</u>  | <u>-</u>  |
| Total other financing sources (uses)                         | <u>(865,000)</u>           | <u>(865,000)</u>        | <u>(865,000)</u>  | <u>-</u>  |
| Change in fund balance                                       | 33,196                     | 46,628                  | 46,628            | -   |
| <b>Fund balance:</b>   |                            |                         |                   |   |
| Beginning of year  |                            |                         | <u>635,124</u>    |   |
| End of year  |                            |                         | <u>\$ 681,752</u> |   |

The notes to the financial statements are an integral part of this statement.

The notes to the financial statements are an integral part of this statement.

**Addison Community Schools**

**Required Supplementary Information**

**Schedule of Proportionate Share of the Net Pension Liability**

**June 30, 2018**

|  | <u>2018</u>   | <u>2017</u>   | <u>2016</u>   | <u>2015</u>   |
|--|---------------|---------------|---------------|---------------|
| A. Reporting unit's proportion of net pension liability (%)  | 0.048317%     | 0.050102%     | 0.050566%     | 0.050130%     |
| B. Reporting unit's proportionate share of net pension liability   | \$ 12,520,942 | \$ 12,499,977 | \$ 12,350,652 | \$ 11,042,091 |
| C. Reporting unit's covered-employee payroll (gross wages)   | \$ 3,964,610  | \$ 4,215,771  | \$ 4,125,900  | \$ 4,230,053  |
| D. Reporting units' proportionate share of net pension liability as a percentage of its covered-employee payroll | 315.8177%     | 296.5051%     | 299.3444%     | 261.0391%     |
| E. Plan fiduciary net position as a percentage of total pension liability  | 63.96%        | 63.01%        | 63.17%        | 66.20%        |

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

**Addison Community Schools**  
**Required Supplementary Information**  
**Schedule of Pension Contributions**  
**June 30, 2018**

|  | <u>2018</u>  | <u>2017</u>  | <u>2016</u>  | <u>2015</u>  |
|--|--------------|--------------|--------------|--------------|
| A. Statutorily required contributions                              | \$ 1,205,683 | \$ 1,123,758 | \$ 1,135,137 | \$ 1,118,535 |
| B. Contributions in relation to statutorily required contributions | \$ 1,205,683 | \$ 1,123,758 | \$ 1,135,137 | \$ 1,118,535 |
| C. Contribution deficiency (excess)                                | \$ -         | \$ -         | \$ -         | \$ -         |
| D. Reporting unit's covered-employee payroll                       | \$ 4,129,711 | \$ 3,962,061 | \$ 3,968,199 | \$ 3,922,807 |
| E. Contributions as a percentage of covered-employee payroll       | 29.1953%     | 28.3630%     | 28.6058%     | 28.5136%     |

The notes to the required supplementary information are an integral part of this schedule.

**Addison Community Schools**

**Required Supplementary Information**

**Schedule of Proportionate Share of the Other Postemployment Benefit (OPEB) Liability**

**June 30, 2018**

|   | <u>2017</u>  |
|---|--------------|
| A. Reporting unit's proportion of net OPEB liability (%)  | 0.04833%     |
| B. Reporting unit's proportionate share of net OPEB liability   | \$ 4,279,495 |
| C. Reporting unit's covered-employee payroll  | \$ 3,964,610 |
| D. Reporting units' proportionate share of net OPEB liability as a percentage of its covered-employee payroll | 107.9424%    |
| E. Plan fiduciary net position as a percentage of total OPEB liability  | 36.53%       |

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

**Addison Community Schools**

**Required Supplementary Information**

**Schedule of Other Postemployment Benefit Contributions**

**June 30, 2018**

|  | <u><b>2017</b></u> |
|--|--------------------|
| A. Statutorily required contributions                              | \$ 323,268         |
| B. Contributions in relation to statutorily required contributions | \$ 323,268         |
| C. Contribution deficiency (excess)                                | \$ -               |
| D. Reporting unit's covered-employee payroll                       | \$ 4,129,711       |
| E. Contributions as a percentage of covered-employee payroll       | 7.8279%            |

The notes to the required supplementary information are an integral part of this schedule.

**Addison Community Schools**  
**Notes to Required Supplementary Information**  
**For the 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***

**Addison Community Schools**

**Combining Balance Sheets**

**Nonmajor Funds**

**June 30, 2018**

**With Comparative Totals for June 30, 2017**

|   | <b>Special<br/>Revenue<br/>Food Service</b> | <b>Capital<br/>Projects</b> | <b>Total Nonmajor<br/>Governmental Funds</b> |                  |
|---|---|-----------------------------|--|------------------|
|   |   |                             | <b>2018</b>                                  | <b>2017</b>      |
| <b>Assets:</b>                            |   |                             |  |                  |
| Cash and cash equivalents                 | \$ 12,170                                   | \$ 8                        | \$ 12,178                                    | \$ 48,807        |
| Investments                               | 56,741                                      | -                           | 56,741                                       | 28,950           |
| Accounts receivable                       | 2,756                                       | -                           | 2,756  | 1,145            |
| Due from other governments                | 3,431                                       | -                           | 3,431  | 2,807            |
| Inventory                                 | 3,145                                       | -                           | 3,145  | 4,327            |
|   | <hr/>                                       | <hr/>                       | <hr/>  | <hr/>            |
| Total assets                              | <u>78,243</u>                               | <u>8</u>                    | <u>78,251</u>                                | <u>86,036</u>    |
| <br><b>Liabilities and Fund Balances:</b> |   |                             |  |                  |
| <b>Liabilities:</b>                       |   |                             |  |                  |
| Accounts payable                          | 820   | -                           | 820  | 30,356           |
| Due to other governments                  | 100   | -                           | 100  | 100              |
| Salaries payable                          | 723   | -                           | 723  | 789              |
| Accrued expenditures                      | 240   | -                           | 240  | 257              |
| Unearned revenue                          | -   | -                           | -  | 1,309            |
|   | <hr/>                                       | <hr/>                       | <hr/>  | <hr/>            |
| Total liabilities                         | <u>1,883</u>                                | <u>-</u>                    | <u>1,883</u>                                 | <u>32,811</u>    |
| <br><b>Fund Balances:</b>                 |   |                             |  |                  |
| Nonspendable                              |   |                             |  |                  |
| Inventory                                 | 3,145                                       | -                           | 3,145  | 4,327            |
| Restricted for:                           |   |                             |  |                  |
| Food service                              | 73,215                                      | -                           | 73,215                                       | 48,890           |
| Capital projects                          | -   | 8                           | 8  | 8                |
|   | <hr/>                                       | <hr/>                       | <hr/>  | <hr/>            |
| Total fund balances                       | <u>76,360</u>                               | <u>8</u>                    | <u>76,368</u>                                | <u>53,225</u>    |
|   | <hr/>                                       | <hr/>                       | <hr/>  | <hr/>            |
| Total liabilities & fund balances         | <u>\$ 78,243</u>                            | <u>\$ 8</u>                 | <u>\$ 78,251</u>                             | <u>\$ 86,036</u> |

The notes to the financial statements are an integral part of this statement.

**Addison Community Schools**

**Combining Statements of Revenues, Expenditures and Changes in Fund Balances**

**Nonmajor Funds**

**For the year ended June 30, 2018  
With Comparative Totals for June 30, 2017**

|  | <b>Special<br/>Revenue<br/>Food Service</b> | <b>Capital<br/>Projects</b> | <b>Total Nonmajor<br/>Governmental Funds</b> |                  |
|--|---|-----------------------------|--|------------------|
|  |   |                             | <b>2018</b>                                  | <b>2017</b>      |
| <b>Revenues:</b>   |   |                             |  |                  |
| <b>Local sources:</b>  |   |                             |  |                  |
| Food sales and athletic admissions                           | \$ 155,803                                  | \$ -                        | \$ 155,803                                   | \$ 163,036       |
| Investment earnings  | -   | -                           | -  | -                |
| Total local sources  | 155,803                                     | -                           | 155,803                                      | 163,036          |
| State sources  | 15,025                                      | -                           | 15,025                                       | 16,682           |
| Federal sources  | 330,654                                     | -                           | 330,654                                      | 284,679          |
| Total revenues   | 501,482                                     | -                           | 501,482                                      | 464,397          |
| <b>Expenditures:</b>   |   |                             |  |                  |
| <b>Current:</b>  |   |                             |  |                  |
| Food service   | 416,736                                     | -                           | 416,736                                      | 401,679          |
| Total expenditures   | 416,736                                     | -                           | 416,736                                      | 401,679          |
| Excess (deficiency) of revenues<br>over (under) expenditures | 84,746                                      | -                           | 84,746                                       | 62,718           |
| <b>Other financing sources (uses):</b>                       |   |                             |  |                  |
| Payments to other public schools                             | (33,603)                                    | -                           | (33,603)                                     | (32,904)         |
| Transfers out  | (28,000)                                    | -                           | (28,000)                                     | (25,500)         |
| Change in fund balances                                      | 23,143                                      | -                           | 23,143                                       | 4,314            |
| <b>Fund balances:</b>  |   |                             |  |                  |
| Beginning of year  | 53,217                                      | 8                           | 53,225                                       | 48,911           |
| End of year  | <u>\$ 76,360</u>                            | <u>\$ 8</u>                 | <u>\$ 76,368</u>                             | <u>\$ 53,225</u> |

The notes to the financial statements are an integral part of this statement.

**Addison Community Schools**  
**Schedule of Federal Revenues**  
**For the Year Ended June 30, 2018**

Reconciliation of Fund Financial Statement Federal Revenue to Expenditures  
subject to Uniform Guidance

|  |                   |
|--|-------------------|
| Revenues from Federal Sources - Statement of Revenues ,<br>Expenditures and Changes in Fund Balance  | \$ 1,058,307      |
| Less: Federal tax credit on QSCB bonds not required to be<br>reported on the Schedule of Expenditures of Federal Awards and<br>are not covered by the Single Audit Act | <u>(529,809)</u>  |
| Expenditures subject to Uniform Guidance   | <u>\$ 528,498</u> |

The notes to the financial statements are an integral part of this statement.

**Addison Community Schools**  
**Schedule of Changes in Assets and Liabilities**  
**Student Activity Fund**  
**For the Year Ended June 30, 2018**

|                                      | <b>Balance</b>      |                   |                   | <b>Balance</b>       |
|--------------------------------------|---------------------|-------------------|-------------------|----------------------|
|                                      | <b>July 1, 2017</b> | <b>Additions</b>  | <b>Deletions</b>  | <b>June 30, 2018</b> |
| <b>Assets:</b>                       |                     |                   |                   |                      |
| Cash and cash equivalents            | \$ 47,267           | \$ 136,606        | \$ 142,369        | \$ 41,504            |
| Accounts receivable                  | 160                 | -                 | -                 | 160                  |
| Total assets                         | <u>47,427</u>       | <u>136,606</u>    | <u>142,369</u>    | <u>41,664</u>        |
| <b>Liabilities:</b>                  |                     |                   |                   |                      |
| Due to student groups and activities | 47,427              | 136,606           | 142,369           | 41,664               |
| Total liabilities                    | <u>\$ 47,427</u>    | <u>\$ 136,606</u> | <u>\$ 142,369</u> | <u>\$ 41,664</u>     |

The notes to the financial statements are an integral part of this statement.



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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  
Addison Community Schools  
Addison, Michigan

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 Addison Community Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Addison Community Schools' basic financial statements and have issued our report thereon dated October 19, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Addison Community 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 Addison Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Addison Community 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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described below that we consider to be a significant deficiency.

Significant Deficiency

The Budgetary Comparison Schedule presents one expenditure function overspent compared to the final amended budget caused by a reclassification of expenses after the final budget amendment. The board

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establishes budgetary controls and a lack of compliance must be reported as a deficiency.

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To the Board of Education  
Addison Community Schools  
Addison, Michigan

### **Internal Control over Financial Reporting (Concluded)**

#### Client Response

We are aware of the deficiency and understand the importance of budgetary controls over expenditures. Due diligence will be used to prepare and record financial information to adopt budgets for the District in the future.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Addison Community Schools' financial statements are free of 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*, though we feel it is prudent to report the following other matter, which is described as:

The District does not have proper segregation of duties over cash receipts, disbursements and accounts payable. A good system of internal control provides for a proper segregation of the accounting functions. Proper segregation is not always possible, but segregation to the extent possible should be implemented to reduce the risk of errors or fraud.

#### Client Reponse

The Board has established procedures to minimize risk, including oversight, and believes the risk of material misstatement due to little segregation of duties is low.

#### **Addison Community Schools' Response to Findings**

Addison Community Schools' responses to the findings identified in our audit are described previously. Addison Community Schools' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

#### **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.

*Meredith Francis, CPA, P.C.*

Adrian, Michigan  
October 19, 2018