

**ELKTON PIGEON BAY PORT  
LAKER SCHOOLS  
PIGEON, MICHIGAN**

**FINANCIAL STATEMENTS  
JUNE 30, 2018**

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## TABLE OF CONTENTS

	<b><u>PAGE NUMBER</u></b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	i - iii
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	iv - xii
<b>BASIC FINANCIAL STATEMENTS</b>	
Government-wide financial statements	
Statement of net position	1
Statement of activities	2
Fund financial statements	
Balance sheet-Governmental funds	3
Reconciliation of governmental fund balances to governmental activities net position	4
Statement of revenue, expenditures, and changes in fund balances-Governmental funds	5
Reconciliation of the statement of revenue, expenditures, and changes in fund balances of governmental funds to the statement of activities	6
Fiduciary funds	
Statement of fiduciary net position	7
Notes to the financial statements	8 - 35
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary comparison schedule-General fund	36 - 37
Schedule of reporting unit's proportionate share of the net pension liability	38
Schedule of the reporting unit's pension contributions	39
Schedule of reporting unit's proportionate share of the net OPEB liability	40
Schedule of the reporting unit's OPEB contributions	41
Notes to the required supplementary information	42

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## TABLE OF CONTENTS

### **PAGE NUMBER**

#### **ADDITIONAL SUPPLEMENTARY INFORMATION:**

Combining statement of revenue, expenditures, and changes in  
fund balances – Debt service funds 43

Combining statement of revenue, expenditures, and changes in  
fund balances – Capital projects funds 44

Schedule of bonded indebtedness – 2015 refunding bonds 45

Schedule of bonded indebtedness – 2015 technology and bus bonds 46

Schedule of expenditures of federal awards 47 - 48

Notes to the schedule of expenditures of federal awards 49

**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*** 50 - 51

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE** 52 - 53

Schedule of findings and questioned costs 54 - 55

Summary schedule of prior audit findings 56

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education  
Elkton Pigeon Bay Port Laker Schools  
Pigeon, 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 Elkton Pigeon Bay Port Laker Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

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

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

### **Emphasis of Matter – Change in Accounting Principle**

As discussed in Note 14 to the financial statements, Elkton Pigeon Bay Port Laker Schools implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

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

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Elkton Pigeon Bay Port Laker School's basic financial statements. The additional information, as identified in the table of contents, including the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2018, on our consideration of Elkton Pigeon Bay Port Laker School'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Elkton Pigeon Bay Port Laker Schools' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Elkton Pigeon Bay Port Laker School's internal control over financial reporting and compliance.

*Nietzke & Faupel P.C.*

NIETZKE & FAUPEL, P.C.  
Pigeon, Michigan

October 10, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report presents our discussion and analysis of the District's financial performance during the school year ended June 30, 2018. The intent of this discussion and analysis is to provide, in layman's terms, a look at the District's performance and past and current position. Readers should also review the transmittal letter, notes to the financial statements and financial statements to enhance their understanding of the District's financial performance.

For the year ended June 30, 2018 Elkton Pigeon Bay Port Laker School's Laker Schools implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These changes are significant at the government-wide level.

### FINANCIAL HIGHLIGHTS

The General fund showed revenues exceeded expenditures by \$139,495. This is \$86,705 more than the final budget had anticipated.

The Combined Debt Service funds showed expenditures exceeded revenues by \$223.

The Combined Capital Projects funds showed expenditures exceeded revenues by \$460,204.

The Food Service fund showed revenues exceeded expenditures by \$2,224.

### OVERVIEW OF THE FINANCIAL STATEMENTS

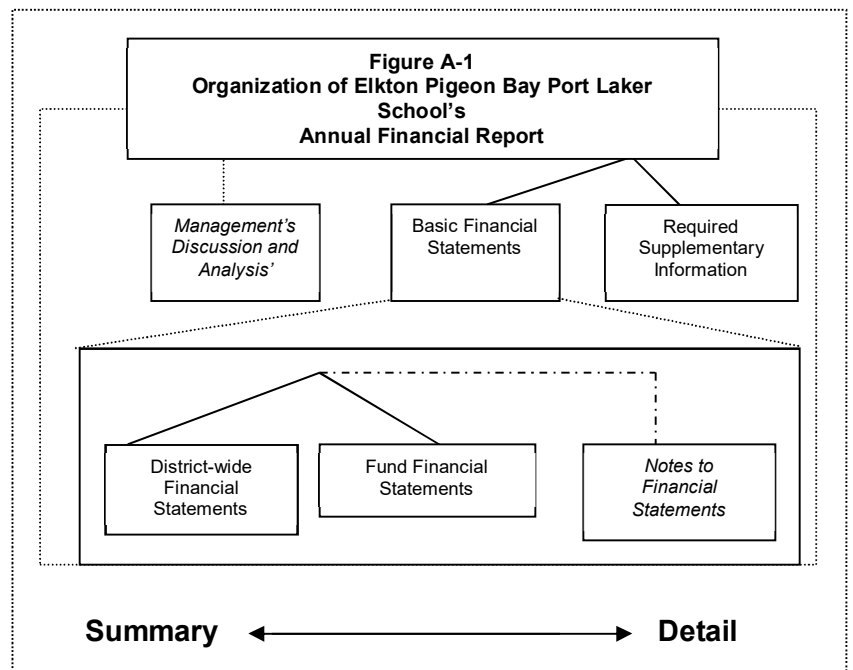
This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.

The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the district-wide statements.

The *governmental fund* statements tell how *basic* services like instruction and support services were financed in the *short term* as well as what remains for future spending.

Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.



The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

<b>Figure A-2</b> <b>Major Features of District-Wide and Fund Financial Statements</b>			
	<u>District-wide Statements</u>	<u>Fund Financial Statements</u> <u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Elkton Pigeon Bay Port Laker Schools funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.



## DISTRICT-WIDE STATEMENTS

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net position include *all* of the District's assets, deferred outflows, deferred inflows and liabilities. All of the revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net position* and how it has changed. Net position – the difference between the District's assets, deferred outflows, deferred inflows and liabilities – is one way to measure the District's financial health or *position*.

Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities include:

Governmental activities – Most of the District's basic services are included here, such as instruction, support services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

## FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by State law and by bond covenants.

The District establishes other funds to control and manage money for particular purposes (like repaying its debt and its capital projects fund) or to show that it is properly using certain revenues (like school lunch).

The District has two kinds of funds:

Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund financial statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental fund financial statements that explain the relationship (or differences) between them.

Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

### Net Position

The District's combined net position at the beginning of the fiscal year, restated due to GASB Statement 75 implementation, was \$(6,787,404) and on June 30, 2018 was \$(6,170,651) which represents an increase of \$616,753 as recorded in the statement of activities.

The statement of net position provides the perspective of the District as a whole. Table A-3 provides a summary of the District's net position as of June 30, 2018 and 2017.

**Table A-3**  
**Elkton Pigeon Bay Port Laker Schools**  
**Net Position**

	<u><b>2018</b></u>	<u><b>2017</b></u>
Current assets	\$ 3,847,532	\$ 4,206,119
Capital assets	<u>12,574,106</u>	<u>12,586,707</u>
Total assets	<u>16,421,638</u>	<u>16,792,826</u>
 Deferred outflows of resources	 <u>4,210,435</u>	 <u>2,560,799</u>
 Current liabilities	 2,451,607	 3,092,766
Long-term debt	4,163,296	4,941,546
Net other postemployment benefits liability	4,762,972	-
Net pension liability	<u>13,930,444</u>	<u>12,850,213</u>
Total liabilities	<u>25,308,319</u>	<u>20,884,525</u>
 Deferred inflows of resources	 <u>1,494,405</u>	 <u>443,654</u>
 Net position:		
Net investment in capital assets	8,004,855	6,655,268
Restricted for debt service	129,937	124,680
Restricted for capital projects	290,046	750,250
Restricted for food service	137,045	131,660
Unrestricted	<u>(14,732,534)</u>	<u>(9,636,412)</u>
Total net position	<u><u>\$(6,170,651)</u></u>	<u><u>\$(1,974,554)</u></u>

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

The statement of activities shows the results of this year's operations for Elkton Pigeon Bay Port Laker Schools as a whole. Table A-4 shows the changes in net position of the District as of June 30, 2018 and 2017.

**Table A-4**  
**Elkton Pigeon Bay Port Laker School's Changes in Net Position**

	<u><b>2018</b></u>	<u><b>2017</b></u>
Revenues		
Program revenues:		
Charges for services	\$ 900,127	\$ 839,604
Federal and State categorical grants	951,913	991,745
Capital grants and contributions	11,865	15,900
General revenues:		
Property taxes	4,795,931	4,652,401
State sources	5,073,874	4,769,178
Other	<u>324,453</u>	<u>261,627</u>
Total revenues	<u>12,058,163</u>	<u>11,530,455</u>
Expenses		
Instruction	6,481,076	6,270,132
Support services	3,516,397	3,429,638
Community service	7,749	6,540
Food services	448,131	452,447
Interest on long-term debt	220,689	241,698
Unallocated depreciation	<u>767,368</u>	<u>743,826</u>
Total expenses	11,441,410	11,144,281
Change in net position	<u><u>\$ 616,753</u></u>	<u><u>\$ 386,174</u></u>

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

## **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The District uses funds to help it control and manage money for particular purposes. The reader can look at these funds to help determine whether the Elkton Pigeon Bay Port Laker School District is being held accountable for the resources taxpayers and others provide to it, and it may give them insight into the District's overall financial health.

Table A-5 shows the breakdown of the sources of revenue for the District. A substantial portion (42%) of the District's revenues is received from State sources, which means that the financial stability of the District rests primarily with the economic health of the State of Michigan. In addition, local sources increased and represent 50% of the District's revenue.

**Table A-5**  
**Sources for Revenue for Fiscal Year**  
**2017/2018**

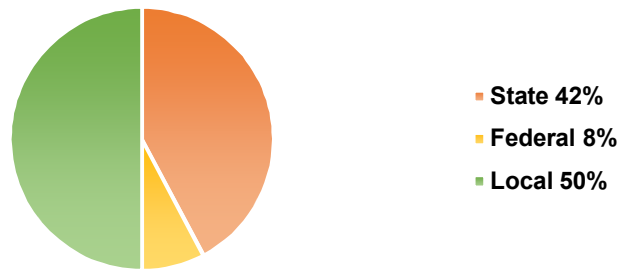
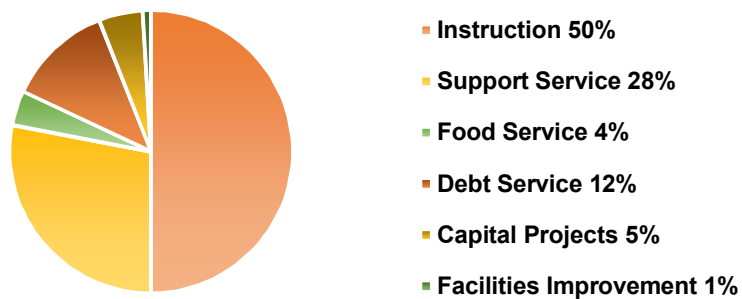


Table A-6 shows that 50% of the District's resources are spent on instruction services and 28% on support services. These two functions make up 78% of the District's expenditures.

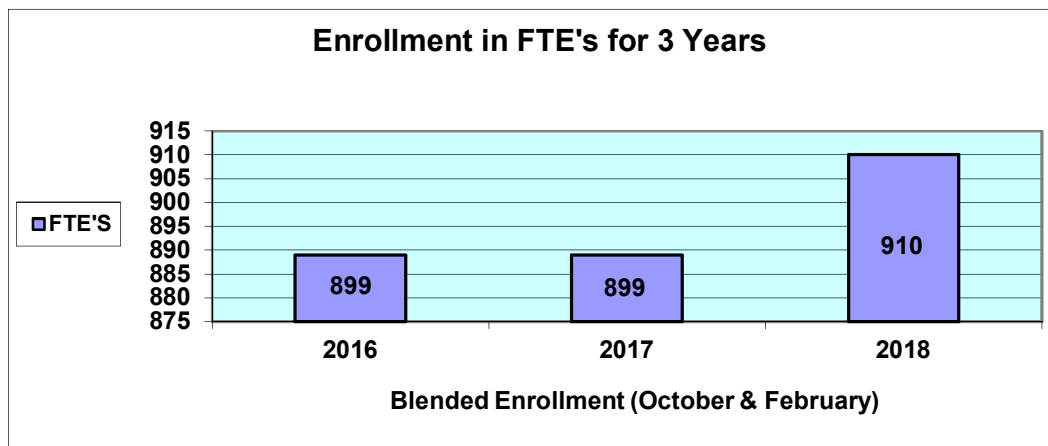
**Table A-6**



The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the 2017/2018 school year, the governmental funds reported a combined fund balance of \$2,213,450. The fiduciary funds had a cash balance of \$177,928.

## Factors Affecting Fund Equity

- *General Fund Equity* – Increased \$139,495.
- *Grants* – The District received grants for behavioral programs, professional development, parent programs, at risk, and literacy programs. These help to offset the cost of instructional budget items normally paid from fund equity.
- *Combined Debt Service Fund Equity* – Decreased \$223.
- *Combined Capital Projects Fund Equity* – Decreased \$460,204.
- *Food Service Fund Equity* – Increased \$2,224.
- *Student Enrollment*  
The chart below shows an increase in enrollment for the last year.



## 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. Over the course of the year, the District revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. The final amendment to the budget was actually adopted just before the year-end, along with the new adopted budget for the upcoming school year.

Initial budget amendments were made to reflect the impact of changes to increases in grant funds, the impact of actual student counts and finalizing the amount to be received in state aid. Also, budget amendments were required to reflect staffing changes and contract settlements.

Original revenues and other financing sources were budgeted at \$9,552,500 and the actual revenue amount was \$9,995,785. The original budget amount for expenditures and transfers was \$9,552,500 and the actual figure was \$9,856,290.

The final amended budget was set to complete the fiscal year with a surplus of \$52,790. Final results showed that revenues came in \$58,060 greater than anticipated, and expenditures were less than anticipated by \$28,645. The net result was a change in fund balance of \$139,495 increasing fund balance to \$1,628,621.

## Capital Asset and Debt Administration

### Capital Assets

The District did not have any capital asset dispositions for the year. Construction in progress of \$59,041 was moved to building projects. The District's capital additions for the year are as follows:

Buildings	\$ 757,094
Building improvements	13,349
Machinery and equipment	<u>43,365</u>
Total additions	<u>\$ 813,808</u>

The District's capital assets at cost at year-end are outlined in Table A-7.

**Table A-7**  
**Elkton Pigeon Bay Port Laker Schools Capital Assets**

	<u>2018</u>	<u>2017</u>
Buildings	\$ 17,621,534	\$ 16,864,440
Site improvements	3,168,023	3,154,674
Machinery and equipment	1,770,904	1,727,539
School buses	954,364	954,364
Construction in progress	-	59,041
Totals	<u>\$ 23,514,825</u>	<u>\$ 22,760,058</u>

### Debt Administration

As of June 30, 2018, the District had general obligation bonds on the financial statements in the amount of \$4,695,829. The final payments are due in 2025.

As of June 30, 2018, the District had compensated absences payable, which include accumulated sick and vacation pay, totaling \$228,191.

As of June 30, 2018, the District had a capital lease payable for new copiers totaling \$29,000.

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

## FACTORS BEARING ON THE DISTRICT'S FUTURE

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

While the State of Michigan has approved the student foundation allowance for 2018-2019 with an increase and marginal increases over the past several years, there are still expenditures to the District that are beyond the control of the board of education and administration. Pension costs continue to increase, which causes significant financial resources to be unavailable for educational services. The cost of the State pension system continues to absorb more State resources in the form of categorical MPSERS rate reimbursements.

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

In May of 2018 the voters of the school district approved a 1 mill sinking fund for five years and also a new bond with a total amount of \$19,100,000. This new bond will be issued in two series with the school district receiving payments arriving in August 2018 and August 2019. These funds will be used for erecting, furnishing, and equipping a new fieldhouse and fitness facility; erecting, furnishing and equipping additions to the junior high/high school building; furnishing and refurnishing, and equipping and re-equipping school facilities; acquiring and installing instructional technology in school facilities; and preparing, developing, improving and equipping athletic facilities and sites. Construction is to start in the spring of 2019 and be scheduled for completion by the fall of 2020.

### **Requests for Information**

This financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Chief Financial Officer, EPBP Laker Schools, 6136 Pigeon Road, Pigeon, Michigan, 48755, and telephone number (989) 453-4602.

## **BASIC FINANCIAL STATEMENTS**



**ELKTON PIGEON BAY PORT LAKER SCHOOLS**

**STATEMENT OF NET POSITION  
JUNE 30, 2018**

	<b>GOVERNMENTAL ACTIVITIES</b>
<b>ASSETS:</b>	
Cash and deposits	\$ 1,622,342
Investments	665,311
Receivables:	
Accounts receivable	311
Taxes receivable	770
Due from other governments	1,111,129
Prepaid expenses	155,115
Restricted cash - Capital projects	292,554
Depreciated capital assets	23,514,825
Less: Accumulated depreciation	(10,940,719)
<b>TOTAL ASSETS</b>	<b>16,421,638</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Deferred charge on bond refunding	155,578
Related to other postemployment benefits	282,679
Related to pensions	3,772,178
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>4,210,435</b>
<b>LIABILITIES:</b>	
Accounts payable	18,286
Due to other governments	20,186
Accrued salaries and related items	655,980
Accrued retirement	222,094
Accrued interest payable	36,511
Prepaid meals	10,511
Unearned revenue	48,315
State aid note payable	650,000
Noncurrent liabilities:	
Due within one year	789,724
Due in more than one year	4,163,296
Net other postemployment benefits liability	4,762,972
Net pension liability	13,930,444
<b>TOTAL LIABILITIES</b>	<b>25,308,319</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
Related to other postemployment benefits	168,390
Related to pensions	765,968
Related to state aid funding for pensions and other postemployment benefits	560,047
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>1,494,405</b>
<b>NET POSITION:</b>	
Net investment in capital assets	8,004,855
Restricted for:	
Debt service	129,937
Capital projects	290,046
Food service	137,045
Unrestricted	(14,732,534)
<b>TOTAL NET POSITION</b>	<b>\$ (6,170,651)</b>

**ELKTON PIGEON BAY PORT LAKER SCHOOLS**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2018**

FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	PROGRAM REVENUES		GOVERNMENTAL ACTIVITIES
			OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSES) REVENUE AND CHANGES IN NET POSITION
<b>Governmental activities:</b>					
Instruction	\$ 6,481,076	\$ 669,410	\$ 630,436	\$ -	\$ (5,181,230)
Support services	3,516,397	91,767	6,266	11,865	(3,406,499)
Community services	7,749	-	-	-	(7,749)
Food service	448,131	138,950	315,211	-	6,030
Interest on long-term debt	220,689	-	-	-	(220,689)
Depreciation - Unallocated	767,368	-	-	-	(767,368)
<b>Total governmental activities:</b>	<u>\$ 11,441,410</u>	<u>\$ 900,127</u>	<u>\$ 951,913</u>	<u>\$ 11,865</u>	<u>(9,577,505)</u>
<b>General revenues:</b>					
Property taxes, levied for general purposes					3,186,059
Property taxes, levied for debt service					884,341
Property taxes, levied for capital projects					725,531
State sources - unrestricted					5,073,874
Investment earnings					12,441
Sale of assets					4,986
Miscellaneous					307,026
<b>Total general revenue</b>					<u>10,194,258</u>
<b>CHANGE IN NET POSITION</b>					<u>616,753</u>
<b>NET POSITION - Beginning of year, as restated</b>					(6,787,404)
<b>NET POSITION - End of year</b>					<u>\$ (6,170,651)</u>

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

**ELKTON PIGEON BAY PORT LAKER SCHOOLS**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2018**

	<u>GENERAL</u>	<u>COMBINED DEBT SERVICE</u>	<u>COMBINED CAPITAL PROJECTS</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b><u>ASSETS</u></b>					
Cash and deposits	\$ 1,319,955	\$ 157,738	\$ -	\$ 144,649	\$ 1,622,342
Investments	665,311	-	-	-	665,311
Accounts receivable	-	-	-	311	311
Taxes receivable	770	-	-	-	770
Due from other governments	1,108,572	-	-	2,557	1,111,129
Prepaid expenditures	151,841	-	-	3,274	155,115
Restricted cash - Capital projects	-	-	292,554	-	292,554
<b>TOTAL ASSETS</b>	<u>\$ 3,246,449</u>	<u>\$ 157,738</u>	<u>\$ 292,554</u>	<u>\$ 150,791</u>	<u>\$ 3,847,532</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>					
<b><u>LIABILITIES</u></b>					
Accounts payable	\$ 18,121	\$ -	\$ -	\$ 165	\$ 18,286
Due to other governments	17,678	-	2,508	-	20,186
Accrued salaries and related items	653,086	-	-	2,894	655,980
Accrued retirement	222,024	-	-	70	222,094
Accrued interest payable	8,710	-	-	-	8,710
Prepaid meals	-	-	-	10,511	10,511
Unearned revenue	48,209	-	-	106	48,315
State aid note payable	650,000	-	-	-	650,000
<b>TOTAL LIABILITIES</b>	<u>1,617,828</u>	<u>-</u>	<u>2,508</u>	<u>13,746</u>	<u>1,634,082</u>
<b><u>FUND BALANCE:</u></b>					
Nonspendable:					
Prepaid expenditures	151,841	-	-	3,274	155,115
Restricted for:					
Debt service	-	157,738	-	-	157,738
Capital projects	-	-	290,046	-	290,046
Food service	-	-	-	133,771	133,771
Unassigned	1,476,780	-	-	-	1,476,780
<b>TOTAL FUND BALANCE</b>	<u>1,628,621</u>	<u>157,738</u>	<u>290,046</u>	<u>137,045</u>	<u>2,213,450</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 3,246,449</u>	<u>\$ 157,738</u>	<u>\$ 292,554</u>	<u>\$ 150,791</u>	<u>\$ 3,847,532</u>

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO GOVERNMENTAL ACTIVITIES NET POSITION JUNE 30, 2018

**TOTAL GOVERNMENTAL FUND BALANCES** \$ 2,213,450

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

Deferred outflows of resources - related to pensions	\$ 3,772,178	
Deferred inflows of resources - related to pensions	(765,968)	
Deferred outflows of resources - related to other postemployment benefits	282,679	
Deferred inflows of resources - related to other postemployment benefits	(168,390)	
Deferred inflows of resources - related to state aid funding for pensions and other postemployment benefits	<u>(560,047)</u>	2,560,452

Capital assets used in governmental activities are not financial resources, and therefore are not reported as assets in governmental funds.

The cost of capital assets is	23,514,825	
Accumulated depreciation is	<u>(10,940,719)</u>	12,574,106

Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the governmental funds.

Long-term liabilities at year-end consist of:

Note and capital lease payable	29,000	
Bonds payable	4,275,000	
Compensated absences	228,191	
Accrued interest payable on long-term obligations	<u>27,801</u>	(4,559,992)

Certain transactions related to the advance refunding of the 2005 bonds and 2015 bonds are reported as revenue and expenditures in the fund financial statements, however they are reported as assets or liabilities in the government-wide financial statements.

The transactions include the following:

Book value of deferred loss of 2005 Refunding Bond to call date	233,368	
Less: Amortization of deferred loss	<u>(77,790)</u>	155,578

2015 Refunding Bonds issued at a premium	(631,245)	
Less: Amortization of bond premium	<u>210,416</u>	(420,829)

Net other postemployment benefits liability	(4,762,972)
Net pension liability	(13,930,444)

**NET POSITION - GOVERNMENTAL ACTIVITIES** \$ (6,170,651)

**ELKTON PIGEON BAY PORT LAKER SCHOOLS**

**STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2018**

	<u>GENERAL</u>	<u>COMBINED DEBT SERVICE</u>	<u>COMBINED CAPITAL PROJECTS</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>REVENUE:</b>					
Local sources:					
Taxes	\$ 3,186,059	\$ 884,341	\$ 725,531	\$ -	\$ 4,795,931
Food service	-	-	-	145,093	145,093
Other local revenue	1,088,891	864	1,286	-	1,091,041
State sources	5,073,874	-	-	18,886	5,092,760
Federal sources	632,026	-	-	296,325	928,351
<b>TOTAL REVENUE</b>	<u>9,980,850</u>	<u>885,205</u>	<u>726,817</u>	<u>460,304</u>	<u>12,053,176</u>
<b>EXPENDITURES:</b>					
Instruction	6,166,182	-	-	-	6,166,182
Support services	3,494,108	-	-	-	3,494,108
Community services	7,749	-	-	-	7,749
Facilities improvements	169,207	-	-	-	169,207
Food service	-	-	-	448,131	448,131
Capital projects	-	-	566,262	-	566,262
Debt service:					
Principal repayment	19,044	695,000	610,000	-	1,324,044
Interest and fiscal charges	-	190,428	10,759	-	201,187
<b>TOTAL EXPENDITURES</b>	<u>9,856,290</u>	<u>885,428</u>	<u>1,187,021</u>	<u>448,131</u>	<u>12,376,870</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>124,560</u>	<u>(223)</u>	<u>(460,204)</u>	<u>12,173</u>	<u>(323,694)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Sale of assets	4,935	-	-	51	4,986
Transfers (to) from other funds	10,000	-	-	(10,000)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>14,935</u>	<u>-</u>	<u>-</u>	<u>(9,949)</u>	<u>4,986</u>
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<u>139,495</u>	<u>(223)</u>	<u>(460,204)</u>	<u>2,224</u>	<u>(318,708)</u>
<b>FUND BALANCE - JULY 1</b>	<u>1,489,126</u>	<u>157,961</u>	<u>750,250</u>	<u>134,821</u>	<u>2,532,158</u>
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 1,628,621</u>	<u>\$ 157,738</u>	<u>\$ 290,046</u>	<u>\$ 137,045</u>	<u>\$ 2,213,450</u>

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2018

**NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** \$ (318,708)

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

Capital outlays to purchase or construct capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and are allocated over their estimated useful lives as annual depreciation expense in the statement of activities.

Depreciation expense	\$ (767,368)	
Capital outlays	<u>754,767</u>	(12,601)

Long-term debt repayments and proceeds affect long-term liabilities in the statement of net position and do not affect the statement of activities.

Proceeds from long-term debt	-	
Repayment of long-term debt	<u>1,322,400</u>	1,322,400

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources.

Accrued interest payable - beginning of year	33,281	
Accrued interest payable - end of year	<u>(27,801)</u>	5,480

Accrued compensated absences are recorded in the statement of activities when incurred, but it is not recorded in the governmental funds until it is paid.

Accrued compensated absences - beginning of year	216,716	
Accrued compensated absences - end of year	<u>(228,191)</u>	(11,475)

Certain transactions related to the advance refunding of the 2005 bonds are reported as revenue and expenditures in the fund financial statements, however they are reported as assets or liabilities in the government-wide financial statements.

The transactions include the following:

Deferred loss - beginning of year	(178,915)	
Deferred loss - end of year	155,578	
Bond premium - beginning of year	483,954	
Bond premium - end of year	<u>(420,829)</u>	39,788

Some expenses reported in the statement of activities do not require the use of current fiscal resources and therefore, are not reported as expenditures in the governmental funds.

Other postemployment benefit items		164,167
Pension related items		(417,409)

Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension and other postemployment benefit contributions subsequent to the measurement period:

State aid funding for pension, beginning of year	405,158	
State aid funding for pension, end of year	<u>(560,047)</u>	(154,889)

<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>		<u>\$ 616,753</u>
--	--	-------------------

**ELKTON PIGEON BAY PORT LAKER SCHOOLS**

**STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2018**

	<b><u>AGENCY FUNDS</u></b>
<b>ASSETS</b>	
Cash and deposits	\$ 177,928
<b>TOTAL ASSETS</b>	<u><u>\$ 177,928</u></u>
<b>LIABILITIES:</b>	
Due to student organizations	\$ 177,928
<b>TOTAL LIABILITIES</b>	<u><u>\$ 177,928</u></u>

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The Elkton Pigeon Bay Port Laker School District is a consolidated school system located in Huron County, Michigan. The School has approximately 910 students in grades kindergarten through twelve. The school operates under a seven person elected Board of Education.

The basic financial statements of Elkton Pigeon Bay Port Laker School District have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below.

#### **The Reporting Entity:**

The Elkton Pigeon Bay Port Laker Schools (the "District") is governed by the Elkton Pigeon Bay Port Laker Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by U.S. GAAP. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and 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 (GASB).

#### **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. For the most part, the effect of interfund activity has been removed from these statements. 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.

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

In the government-wide statement of net position, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts – net investment in capital assets; restricted; and unrestricted.



# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)** **Government-Wide and Fund Financial Statements: (Continued)**

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, state sources, intermediate district sources, interest income and other revenues.) The statement of activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

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

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

**Governmental Funds** – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the District's expendable financial resources and the related current liabilities are reported through governmental funds.

The District reports the following major governmental funds:

**General Fund** - This fund type is used to account for all financial transactions except those required to be accounted for in another fund. Revenue is derived primarily from property taxes and State and Federal distributions, grants and other intergovernmental revenue.

**Debt Service Funds** - The Debt Service Funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

**Capital Project Funds** - The Capital Project Sinking Fund accounts for the receipt of property taxes levied for the sinking fund and subsequent expenditures of those funds. The School District has complied with the applicable provisions of section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

The Technology Bond Capital Project Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of section 1351(a) of the Revised School Code.

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

#### **Capital Project Funds (Continued)**

Beginning with the year of bond issuance, the school district has reported the annual construction activity in the 2015 capital projects fund. The projects for which the 2015 Technology and Bus Bonds were issued were considered complete on October 31, 2017 and the cumulative expenditures recognized for the construction period were as follows:

Revenue and other financing sources	\$780,778
Expenditures and outgoing transfers	\$735,512
Net bond proceeds included in revenue	\$780,000

#### **Other Non-major Funds:**

**Special Revenue Funds** - This fund type is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The Special Revenue Fund financial statement includes the Food Service Fund.

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

**Agency Fund** - This fund accounts for assets held in trust or as an agent for others. The District's Agency Fund is the Student Activity Fund.

### **Measurement Focus, Basis of Accounting, and Basis of Presentation**

#### **Accrual Method:**

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as does the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

# **ELKTON PIGEON BAY PORT LAKER SCHOOLS**

## **NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

#### **Measurement Focus, Basis of Accounting, and Basis of Presentation: (Continued)**

##### **State Revenue:**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide 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 the pupil membership counts taken in February and October of the previous year.

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 (formerly known as Non-Homestead) 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 funded through payments from October 2017 to August 2018. Thus, the unpaid portion at June 30<sup>th</sup> is reported as accounts receivable.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds which are not expended by the close of the fiscal year are recorded as unearned revenue.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

##### **Other Accounting Policies:**

##### **Cash and Equivalents:**

The District's cash and equivalents include cash on hand, demand deposits and certificates of deposit.

##### **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. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity.

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

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

#### **Receivables and Payables:**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

#### **Inventory and Prepaid Items:**

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consisting of expendable supplies held for consumption, is recorded as an expenditure when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses/expenditures.

#### **Capital Assets:**

Capital assets, which include buildings, furniture and equipment, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the District as assets with initial, individual cost of \$2,500 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Improvements, buildings, furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

<b><u>Assets</u></b>	<b><u>Years</u></b>
Buildings and additions	50
Furniture and other equipment	5-20

#### **Defined Benefit Plan:**

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

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

#### **Other Accounting Policies: (Continued)**

##### **Deferred Outflows/Inflows of Resources:**

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

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

##### **Compensated Absences:**

The District's policies generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in the governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

##### **Long-Term Obligations:**

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenditures in the year in which they are incurred.

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

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

#### **Other Accounting Policies: (Continued)**

##### **Fund Balance:**

The District implemented GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

**Nonspendable fund balance** – amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.

**Restricted fund balance** – amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District's Capital Projects, Debt Service, and Food Service fund balances are considered restricted.

**Committed fund balance** – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

**Assigned fund balance** – amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.

**Unassigned fund balance** – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.

##### **Property Taxes:**

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

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

#### **Other Accounting Policies: (Continued)**

#### **Property Taxes: (Continued)**

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

<b><u>Fund</u></b>	<b><u>Mills</u></b>
General Fund:	
Non-Principal Resident Exemption (PRE)	18.000
Commercial Personal Property	6.000
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property	1.220
Sinking fund:	
PRE, Non-PRE, Commercial Personal Property	1.000

#### **Use of Estimates:**

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles 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.

### **NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

Annual budgets are adopted on a basis consistent with U.S. GAAP for the general fund and special revenue fund. The capital project funds are appropriated on a project-length basis. Other funds do not have appropriated budgets.

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

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comment.

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### **NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY: (CONTINUED)**

3. Prior to July 1, the budget is legally enacted by a School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer 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, special revenue and debt service funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2018.

During the year ended June 30, 2018, there were no expenditures in excess of the amounts appropriated for the year.

### **NOTE 3 – DEPOSITS AND INVESTMENTS:**

A reconciliation of cash and investments as shown on the Statement of Net Position and Statement of Fiduciary Net Position follows:

#### **Statement of Net Position**

Government-wide Financial Statement Captions:

Cash and deposits	\$ 1,622,342
Restricted cash - Capital projects	292,554
Investments	665,311

#### **Statement of Fiduciary Net Position**

Cash and deposits	177,928
Total	<u><u>\$ 2,758,135</u></u>

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

Deposits	\$ 2,092,824
Investments	665,311
Total	<u><u>\$ 2,758,135</u></u>



# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 3 – DEPOSITS AND INVESTMENTS: (CONTINUED)

As of June 30, 2018, the District had the following investments.

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard &amp; Poor's rating</u>	<u>%</u>
MILAF + MAX Class	<u>\$665,311</u>	0.0027	AAAm	<u>100%</u>
Total fair value	<u>\$665,311</u>			<u>100%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals approximately .0027 years

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

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

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

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

**Custodial credit risk – deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2018, \$1,905,636 of the District's bank balance of \$2,202,957 was exposed to custodial credit risk because it was uninsured and uncollateralized. Included in the bank balance are certificates of deposit of \$47,322 and other interest bearing deposits. The carrying amount is \$2,092,824.

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### **NOTE 3 – DEPOSITS AND INVESTMENTS: (CONTINUED)**

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

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

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

### **NOTE 4 – RECEIVABLES:**

Receivables at June 30, 2018 consist of the following:

Local sources	\$ 131,392
State sources	943,758
Federal sources	<u>37,060</u>
Total	<u>\$1,112,210</u>

No allowance for uncollectible accounts is considered necessary for the governmental funds reporting.

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 5 – CAPITAL ASSETS:

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

	<u>2017</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	<u>2018</u>
<b>Capital Assets:</b>				
Buildings	\$ 16,864,440	\$ 757,094	\$ -	\$ 17,621,534
Site improvements	3,154,674	13,349	-	3,168,023
Machinery and equipment	1,727,539	43,365	-	1,770,904
School buses	954,364	-	-	954,364
Construction in progress	59,041	-	59,041	-
<b>Total Capital Assets</b>	<u>22,760,058</u>	<u>813,808</u>	<u>59,041</u>	<u>23,514,825</u>
<b>Accumulated Depreciation:</b>				
Buildings	6,199,906	414,707	-	6,614,613
Site improvements	2,412,690	111,735	-	2,524,425
Machinery and equipment	880,920	185,153	-	1,066,073
School buses	679,835	55,773	-	735,608
<b>Total Accumulated Depreciation</b>	<u>10,173,351</u>	<u>767,368</u>	<u>-</u>	<u>10,940,719</u>
<b>Capital Assets-Net</b>	<u>\$ 12,586,707</u>	<u>\$ 46,440</u>	<u>\$ 59,041</u>	<u>\$ 12,574,106</u>

The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

### NOTE 6 – UNEARNED REVENUE:

Unearned revenue reported in the governmental funds at year end consisted of the following:

General Fund:	
At Risk grant	\$ 20,450
FFA barn project	15,000
Miscellaneous unearned revenue	<u>12,865</u>
Total	<u>\$48,315</u>

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### **NOTE 7 – NOTE PAYABLE:**

At June 30, 2018, the District has outstanding \$650,000 in a state aid note. The state aid note bears interest at 1.34% and matures on August 20, 2018.

<u>2017</u>	<u>ADDITIONS</u>	<u>PAYMENTS</u>	<u>2018</u>
\$700,000	\$650,000	\$700,000	\$650,000

### **NOTE 8 – LONG-TERM DEBT :**

In prior years, the District defeased certain general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account, assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2018, \$4,485,000 of the bonds outstanding are considered defeased.

The District issued general obligation bonds to provide funds for the construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

2015 general obligation school technology and bus bonds due in annual installments of \$195,000 starting May 1, 2016 through May 1, 2019 with interest at 0.95% to 1.85%. The bond issue is not to exceed \$2,650,000. Bonds issued in 2015-2016 amounted to \$780,000.	\$ 195,000
2015 general obligation refunding bonds due in annual installments of \$475,000 to \$640,000 starting May 1, 2016 through May 1, 2025 with interest at 2.00% to 4.00%.	4,080,000
Premium on bond refunding	420,829
<b>Total general obligation bonds</b>	<b>4,695,829</b>
Capital lease for copiers due in monthly installments of \$1,450 starting March 2015 through March 2020 with 0% interest.	29,000
Obligation under contract for compensated absences	228,191
<b>Total general long-term debt</b>	<b><u>\$4,953,020</u></b>

Interest expense (all funds) for the year ended June 30, 2018 was approximately \$221,000. General fund interest expense is included in support services.

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 8 – LONG-TERM DEBT: (CONTINUED)

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

	<b>Years ending</b>			
	<b><u>June 30,</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
	2019	\$ 732,400	\$ 166,808	\$ 899,208
	2020	551,600	142,400	694,000
	2021	560,000	120,800	680,800
	2022	585,000	98,400	683,400
	2023	605,000	75,000	680,000
	2024-2025	<u>1,270,000</u>	<u>76,400</u>	<u>1,346,400</u>
Subtotal		4,304,000	679,808	4,983,808
Premium on bond refunding		420,829	-	420,829
Obligation under contract for compensated absences		<u>228,191</u>	<u>-</u>	<u>228,191</u>
<b>Total general long-term debt and interest</b>		<b><u>\$4,953,020</u></b>	<b><u>\$679,808</u></b>	<b><u>\$5,632,828</u></b>

The following is a summary of the changes in the long-term debt during the year ended June 30, 2018:

	<b><u>2017</u></b>	<b><u>ADDITIONS</u></b>	<b><u>REDUCTIONS</u></b>	<b><u>2018</u></b>	<b><u>DUE WITHIN ONE YEAR</u></b>
2015 sinking fund general obligation bonds	\$ 610,000	\$ -	\$ 610,000	\$ -	\$ -
2015 refunding general obligation bonds	4,580,000	-	500,000	4,080,000	520,000
Premium on bond refunding	483,954	-	63,125	420,829	63,124
2015 technology and bus bonds	390,000	-	195,000	195,000	195,000
Capital lease - Copiers	46,400	-	17,400	29,000	11,600
Compensated absences	216,716	11,475	-	228,191	-
<b>Totals</b>	<b><u>\$6,327,070</u></b>	<b><u>\$ 11,475</u></b>	<b><u>\$1,385,525</u></b>	<b><u>\$4,953,020</u></b>	<b><u>\$ 789,724</u></b>

## ELKTON PIGEON BAY PORT LAKER SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

#### **NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS:**

##### **Plan Description**

The Michigan Public School Employee's retirement System (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. MPERS issues a publicly available Comprehensive Annual Financial report that can be obtained at [www://michigan.gov/mpsers-cafr](http://www://michigan.gov/mpsers-cafr).

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

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management and 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.

##### **Benefits Provided - Overall**

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

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

##### **Benefits Provided - Pension**

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

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

## ELKTON PIGEON BAY PORT LAKER SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

#### **NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED)**

##### **Pension Reform 2010**

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

##### **Pension Reform 2012**

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

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

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

## **ELKTON PIGEON BAY PORT LAKER SCHOOLS**

### **NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018**

#### **NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED)** **Pension Reform 2012 (Continued)**

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

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

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

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

#### **Pension Reform of 2017**

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



## ELKTON PIGEON BAY PORT LAKER SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

#### **NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED)**

##### **Benefits Provided – Other postemployment benefit (OPEB)**

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

##### **Retiree Healthcare Reform of 2012**

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

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

##### **Regular Retirement (no reduction factor for age)**

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

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

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### **NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED)**

#### **Member Contributions**

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

#### **Employer Contributions**

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

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

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

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

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

The District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately \$1,374,860, with \$1,362,332 specifically for the Defined Benefit Plan.

The District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total. OPEB benefits were approximately \$351,589, with \$339,631 specifically for the Defined Benefit Plan.

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

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### **NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED)**

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

##### **Pension Liabilities**

At June 30, 2018, the District reported a liability of \$13,930,444 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the District's proportion was 0.05376% and 0.05152%.

<b><u>MPERS (Plan) Non-university employers:</u></b>	<b><u>September 30, 2017</u></b>	<b><u>September 30, 2016</u></b>
Total pension liability	\$ 72,407,218,688	\$ 67,917,445,078
Plan fiduciary net position	\$ 46,492,967,573	\$ 42,968,263,308
Net pension liability	\$ 25,914,251,115	\$ 24,949,181,770
Proportionate share	0.05376%	0.05152%
Net pension liability for the District	\$ 13,930,444	\$ 12,850,213

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

For the year ended June 30, 2018, the District recognized pension expense of \$1,777,929.

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

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred (Inflows) of Resources</u></b>
Difference between expected and actual experience	\$ 121,065	\$ (68,354)
Changes of assumptions	1,526,191	-
Net difference between projected and actual earnings on pension plan investments	-	(665,967)
Changes in proportion and differences between employer contributions and proportionate share of contributions	917,144	(31,647)
Reporting Unit's contributions subsequent to the measurement date	1,207,778	-
Totals	<u>\$ 3,772,178</u>	<u>\$ (765,968)</u>

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### **NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED)**

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

\$1,207,778 reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

<u>Years ended September 30,</u>	<u>Amount</u>
2018	\$587,800
2019	788,997
2020	392,786
2021	28,849

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

##### **OPEB Liabilities**

At June 30, 2018, the District reported a liability of \$4,762,972 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017, the District's proportion was 0.05379 percent.

<u>MPSERS (Plan) Non-university employers</u>	<u>September 30, 2017</u>
Total Other Postemployment Benefit Liability	\$ 13,920,945,991
Plan Fiduciary Net Position	\$ 5,065,474,948
Net Other Postemployment Benefit Liability	\$ 8,855,471,043
Proportionate share	0.05379%
Net Other Postemployment Benefit Liability for the District	\$ 4,762,972

**ELKTON PIGEON BAY PORT LAKER SCHOOLS**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED)**

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$316,938.

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

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred (Inflows) of Resources</u></b>
Differences between expected and actual experience	\$ -	\$ (50,712)
Net difference between projected and actual earnings on OPEB plan investments	-	(110,312)
Changes in proportion and difference between employer contributions and proportionate share of contributions	-	(7,366)
Reporting Unit's contributions subsequent to the measurement date	282,679	-
	<u>\$ 282,679</u>	<u>\$ (168,390)</u>

\$282,679, reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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>Years ended September 30,</u>	<u>Amount</u>
2018	\$(40,558)
2019	(40,558)
2020	(40,558)
2021	(40,558)
2022	(6,158)

## ELKTON PIGEON BAY PORT LAKER SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

#### **NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED)**

##### **Actuarial Assumptions**

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

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

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

**Inflation** – 3.0%

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

**Experience study** - The annual actuarial valuation report of the System used for these statements is dated September 30, 2016. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

**The long-term expected rate of return on pension and other postemployment benefit plan investments** - The pension rate was 7.5% (7% Pension Plus Plan), and the other postemployment benefit rate was 7.5%, net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**Cost of living pension adjustments** – 3.0% annual non-compounded for MIP members.

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

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

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

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

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

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### **NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED)** **Actuarial Assumptions (Continued)**

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

<b><u>Investment Category</u></b>	<b><u>Target Allocation</u></b>	<b><u>Long-term Expected Real Rate of Return*</u></b>
Domestic Equity Pools	28.00%	5.60%
Private Equity Pools	18.00%	8.70%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	(0.10)%
Real Estate and Infrastructure Pools	10.00%	4.20%
Absolute Return Pools	15.50%	5.00%
Short Term Investment Pools	2.00%	(0.90)%
	<u>100.00%</u>	

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

**Pension Discount rate** - The discount rate used to measure the total pension liability was 7.5% (7.0% for Pension Plus Plan). This discount rate was based on the long-term rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that plan members contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**OPEB Discount rate** – The discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that school districts contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was 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.

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

### **NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED)**

#### **Actuarial Assumptions (Continued)**

**Sensitivity of the net pension liability to changes in the discount rate** - The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for Pension Plus Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Pension		
	1% Decrease (6.5% / 6.0%)	Discount Rate (7.5% / 7.0%)	1% Increase (8.5% / 8.0%)
Reporting Unit's proportionate share of the net pension liability	<u>\$18,146,735</u>	<u>\$13,930,444</u>	<u>\$10,380,595</u>

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

	Other postemployment benefit		
	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Reporting Unit's proportionate share of the net other postemployment benefit liability	<u>\$5,578,817</u>	<u>\$4,762,972</u>	<u>\$4,070,575</u>

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

	Other postemployment benefit		
	1% Decrease (6.5% decreasing to 2.5%)	Healthcare cost trend rates (7.5% decreasing to 3.5%)	1% Increase (8.5% decreasing to 4.5%)
Reporting Unit's proportionate share of the net other postemployment benefit liability	<u>\$4,033,597</u>	<u>\$4,762,972</u>	<u>\$5,591,126</u>



## **ELKTON PIGEON BAY PORT LAKER SCHOOLS**

### **NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018**

#### **NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED)**

##### **Pension and OPEB Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2017 Comprehensive Annual Financial Report.

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

##### **Other Information**

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

#### **NOTE 10 – CONTINGENT LIABILITY:**

The District is a reimbursing employer for purposes of unemployment insurance claims against the School District. The District reimburses the State of Michigan for all benefits charged against it in the event of termination of employment and subsequent claims of its employees. The contingent liability for unemployment insurance claims is not recognized in the accompanying financial statements. This expense is recognized as incurred.

#### **NOTE 11 – 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. 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 workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

## ELKTON PIGEON BAY PORT LAKER SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

#### **NOTE 11 – RISK MANAGEMENT: (CONTINUED)**

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 12 – SUBSEQUENT EVENTS:**

Subsequent to year-end, the District entered into an agreement to borrow \$1,100,000 from Mayville State Bank. The financing assists the District with cash flow during the months there is no state aid or property taxes received. The note is dated August 20, 2018, and carries interest at 2.8% per annum. The note matures August 20, 2019.

#### **NOTE 13 – TAX ABATEMENTS:**

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

<u>Municipality</u>	<u>Taxes Abated</u>
Winsor Township	\$ 75,083
Oliver Township	54,624
Chandler Township	4,166
Total	<u>\$ 133,873</u>

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

There are no significant abatements made by the District.

#### **NOTE 14 – NEW ACCOUNTING STANDARDS:**

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

#### **Summary:**

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

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### **NOTE 14 – NEW ACCOUNTING STANDARDS: (CONTINUED)**

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

	Governmental Activities
Net position as previously stated July 1, 2017	\$ (1,974,554)
Adoption of GASB Statement 75:	
Net other postemployment benefit liability	(5,023,880)
Deferred outflows	361,797
Deferred inflows	(150,767)
Net position as restated July 1, 2017	<u>\$ (6,787,404)</u>

### **NOTE 15 – UPCOMING ACCOUNTING PRONOUNCEMENTS:**

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

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

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**ELKTON PIGEON BAY PORT LAKER SCHOOLS**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2018**

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>FINAL BUDGET</u>
<b>REVENUE:</b>				
Local sources:				
Taxes	\$ 3,050,025	\$ 3,185,290	\$ 3,186,059	\$ 769
Interest	3,505	8,215	9,885	1,670
Other local revenue	956,550	1,074,915	1,079,006	4,091
State sources:				
State school aid-Restricted	1,236,525	1,408,805	1,411,875	3,070
Other state aid revenue	3,649,500	3,615,170	3,661,999	46,829
Federal sources	638,895	630,395	632,026	1,631
<b>TOTAL REVENUE</b>	<u>9,535,000</u>	<u>9,922,790</u>	<u>9,980,850</u>	<u>58,060</u>
<b>EXPENDITURES:</b>				
Instruction:				
Basic programs	4,714,510	4,765,455	4,754,344	11,111
Added needs	<u>1,352,250</u>	<u>1,412,910</u>	<u>1,411,838</u>	<u>1,072</u>
Total instruction	<u>6,066,760</u>	<u>6,178,365</u>	<u>6,166,182</u>	<u>12,183</u>
Supporting services:				
Pupil	564,985	572,635	571,976	659
Instructional staff	159,290	169,585	168,407	1,178
General administration	352,065	364,665	363,859	806
School administration	471,035	481,525	480,782	743
Business services	213,280	216,905	216,549	356
Operations and maintenance	609,255	639,175	633,536	5,639
Transportation	490,925	502,470	498,178	4,292
Athletics	251,560	295,320	294,452	868
Other central support	<u>272,750</u>	<u>267,820</u>	<u>266,369</u>	<u>1,451</u>
Total supporting services	<u>3,385,145</u>	<u>3,510,100</u>	<u>3,494,108</u>	<u>15,992</u>
Community services	<u>6,160</u>	<u>7,780</u>	<u>7,749</u>	<u>31</u>
Facilities improvements	<u>73,750</u>	<u>169,645</u>	<u>169,207</u>	<u>438</u>
Debt service:				
Principal repayment	<u>20,685</u>	<u>19,045</u>	<u>19,044</u>	<u>1</u>
Total debt service	<u>20,685</u>	<u>19,045</u>	<u>19,044</u>	<u>1</u>
<b>TOTAL EXPENDITURES</b>	<u>9,552,500</u>	<u>9,884,935</u>	<u>9,856,290</u>	<u>28,645</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>(17,500)</u>	<u>37,855</u>	<u>124,560</u>	<u>86,705</u>

(Continued)

**ELKTON PIGEON BAY PORT LAKER SCHOOLS**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2018**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of assets	2,500	4,935	4,935	-
Transfers from other funds	15,000	10,000	10,000	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>17,500</u>	<u>14,935</u>	<u>14,935</u>	<u>-</u>
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<u>-</u>	<u>52,790</u>	<u>139,495</u>	<u>86,705</u>
<b>FUND BALANCE - JULY 1</b>	1,489,126	1,489,126	1,489,126	-
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 1,489,126</u>	<u>\$ 1,541,916</u>	<u>\$ 1,628,621</u>	<u>\$ 86,705</u>

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.05376%	0.05152%	0.04930%	0.04708%
Reporting unit's proportionate share of net pension liability	\$ 13,930,444	\$ 12,850,213	\$ 12,042,183	\$ 10,371,175
Reporting unit's covered-employee payroll	\$ 4,553,628	\$ 4,443,018	\$ 4,333,407	\$ 4,184,344
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	305.92%	289.22%	277.89%	247.86%
Plan fiduciary net position as a percentage of total pension liability	64.21%	63.27%	63.17%	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years, However, until a full 10 year trend is compiled, the reporting units should present information for those years for which information is available.

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,362,332	\$ 1,491,334	\$ 1,534,986	\$ 1,231,791
Contributions in relation to statutorily required contributions	1,362,332	1,491,334	1,534,986	1,231,791
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 4,668,304	\$ 4,735,626	\$ 4,353,480	\$ 4,344,522
Contributions as a percentage of covered-employee payroll	29.18%	31.49%	35.26%	28.35%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the reporting units should present information for those years for which information is available.



# **ELKTON PIGEON BAY PORT LAKER SCHOOLS**

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

	<b><u>2017</u></b>
Reporting unit's proportion of net OPEB liability (%)	0.05379%
Reporting unit's proportionate share of net OPEB liability	\$ 4,762,972
Reporting unit's covered-employee payroll	\$ 4,553,628
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll (%)	104.60%
Plan fiduciary net position as a percentage of total OPEB liability (Non-univeristy employers)	36.39%

This schedule is presented to illustrate the requirement to show information for 10 years, However, until a full 10 year trend is compiled, the reporting units should present information for those years for which information is available.

**ELKTON PIGEON BAY PORT LAKER SCHOOLS**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE REPORTING UNIT'S OPEB CONTRIBUTIONS**

**MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN**

**LAST 10 FISCAL YEARS (DETERMINED AS OF**

**PLAN YEAR ENDED JUNE 30)**

Statutorily required contributions	<u><b>2018</b></u> \$ 339,631
Contributions in relation to statutorily required contributions	339,631
Contribution deficiency (excess)	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 4,668,304
Contributions as a percentage of covered-employee payroll	7.28%

This schedule is presented to illustrate the requirement to show information for 10 years, However, until a full 10 year trend is compiled, the reporting units should present information for those years for which information is available.

**ELKTON PIGEON BAY PORT LAKER SCHOOLS**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2018**

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

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

**ADDITIONAL SUPPLEMENTARY  
INFORMATION**

# ELKTON PIGEON BAY PORT LAKER SCHOOLS

## COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - DEBT SERVICE FUNDS YEAR ENDED JUNE 30, 2018

	<b>2015 DEBT FUND</b>	<b>2015 TECHNOLOGY DEBT FUND</b>	<b>TOTAL DEBT SERVICE FUNDS</b>
<b>REVENUE:</b>			
Local sources:			
Property taxes	\$ 652,467	\$ 231,874	\$ 884,341
Earnings on investments	673	191	864
<b>TOTAL REVENUE</b>	<u>653,140</u>	<u>232,065</u>	<u>885,205</u>
<b>EXPENDITURES:</b>			
Debt service:			
Principal repayment	500,000	195,000	695,000
Interest and fiscal charges	183,700	6,728	190,428
<b>TOTAL EXPENDITURES</b>	<u>683,700</u>	<u>201,728</u>	<u>885,428</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>(30,560)</u>	<u>30,337</u>	<u>(223)</u>
<b>FUND BALANCE - JULY 1</b>	139,810	18,151	157,961
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 109,250</u>	<u>\$ 48,488</u>	<u>\$ 157,738</u>

**ELKTON PIGEON BAY PORT LAKER SCHOOLS**

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN  
FUND BALANCES - CAPITAL PROJECTS FUNDS  
YEAR ENDED JUNE 30, 2018**

	<b>SINKING FUND</b>	<b>TECHNOLOGY BOND CAPITAL PROJECTS</b>	<b>TOTAL CAPITAL PROJECTS FUNDS</b>
<b>REVENUE:</b>			
Local sources:			
Property taxes	\$ 725,531	\$ -	\$ 725,531
Earnings on investments	1,233	53	1,286
<b>TOTAL REVENUE</b>	<u>726,764</u>	<u>53</u>	<u>726,817</u>
<b>EXPENDITURES:</b>			
Other professional services	21,310	-	21,310
Capital outlay	535,038	9,914	544,952
Debt service:			
Principal repayment	610,000	-	610,000
Interest and fiscal charges	10,259	500	10,759
<b>TOTAL EXPENDITURES</b>	<u>1,176,607</u>	<u>10,414</u>	<u>1,187,021</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>(449,843)</u>	<u>(10,361)</u>	<u>(460,204)</u>
<b>FUND BALANCE - JULY 1</b>	699,848	50,402	750,250
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 250,005</u>	<u>\$ 40,041</u>	<u>\$ 290,046</u>

**ELKTON PIGEON BAY PORT LAKER SCHOOLS**

**SCHEDULE OF BONDED INDEBTEDNESS  
2015 REFUNDING BONDS  
JUNE 30, 2018**

<b>Fiscal Year ending <u>June 30,</u></b>	<b>Interest <u>Rate</u></b>	<b>Interest due</b>		<b>Principal <u>May - 1</u></b>	<b>Total due <u>Annually</u></b>
		<b><u>Nov - 1</u></b>	<b><u>May - 1</u></b>		
2019	4.000%	\$ 81,600	\$ 81,600	\$ 520,000	\$ 683,200
2020	4.000%	71,200	71,200	540,000	682,400
2021	4.000%	60,400	60,400	560,000	680,800
2022	4.000%	49,200	49,200	585,000	683,400
2023	4.000%	37,500	37,500	605,000	680,000
2024	4.000%	25,400	25,400	630,000	680,800
2025	4.000%	12,800	12,800	640,000	665,600
Total		<u>\$ 338,100</u>	<u>\$ 338,100</u>	<u>\$ 4,080,000</u>	<u>\$ 4,756,200</u>

On February 24, 2015, a portion of the 2005 Refunding Bonds were refunded.

**ELKTON PIGEON BAY PORT LAKER SCHOOLS**

**SCHEDULE OF BONDED INDEBTEDNESS  
2015 TECHNOLOGY AND BUS BONDS  
JUNE 30, 2018**

<b>Fiscal Year ending <u>June 30,</u></b>	<b>Interest <u>Rate</u></b>	<b>Interest due</b>		<b>Principal <u>May - 1</u></b>	<b>Total due <u>Annually</u></b>
		<b><u>Nov - 1</u></b>	<b><u>May - 1</u></b>		
2019	1.850%	\$ 1,804	\$ 1,804	\$ 195,000	\$ 198,608
Total		<u>\$ 1,804</u>	<u>\$ 1,804</u>	<u>\$ 195,000</u>	<u>\$ 198,608</u>

On August 11, 2015, the District issued \$780,000 in technology and bus bonds. Total bonds approved are not to exceed \$2,650,000.



**ELKTON PIGEON BAY PORT LAKER SCHOOLS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2018**

<b>Federal Grantor Pass Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Grantor's Number</b>	<b>Approved Grant Award Amount</b>	<b>Memo Only Prior Year Expenditures</b>	<b>Accrued or (Unearned) Revenue 7/1/2017</b>	<b>Current Year Receipts (Cash basis)</b>	<b>Current Year Expenditures</b>	<b>Accrued (Unearned) Revenue 6/30/18</b>
<b>U.S. Department of Agriculture</b>								
Passed Through Michigan Dept. of Education								
Child Nutrition Cluster:								
Non-cash assistance (donated foods):								
Entitlement	10.555		\$ 30,993	\$ -	\$ -	\$ 30,993	\$ 30,993	\$ -
Total Non-cash assistance			30,993	-	-	30,993	30,993	-
Cash assistance:								
School Breakfast Program	10.553	171970	7,125	-	-	7,125	7,125	-
School Breakfast Program		181970	64,842	-	-	64,842	64,842	-
			71,967	-	-	71,967	71,967	-
National School Lunch Program	10.555	171960	21,382	-	-	21,382	21,382	-
National School Lunch Program		181960	171,983	-	-	171,983	171,983	-
			193,365	-	-	193,365	193,365	-
Cash assistance subtotal			265,332	-	-	265,332	265,332	-
Total for Child Nutrition Cluster			296,325	-	-	296,325	296,325	-
<b>Total U.S. Department of Agriculture</b>			296,325	-	-	296,325	296,325	-
<b>U.S. Department of Health &amp; Human Serv.</b>								
Youth/Mental Health Grant	93.243	1H79SM062	100,000	62,161	-	2,820	2,820	-
Passed through ISD								
Medicaid Outreach	93.778		1,590	-	-	934	1,590	656
<b>Total U.S. Department of Health &amp; Human Serv.</b>			101,590	62,161	-	3,754	4,410	656

**ELKTON PIGEON BAY PORT LAKER SCHOOLS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2018**

<b>Federal Grantor Pass Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Grantor's Number</b>	<b>Approved Grant Award Amount</b>	<b>Memo Only Prior Year Expenditures</b>	<b>Accrued or (Unearned) Revenue 7/1/2017</b>	<b>Current Year Receipts (Cash basis)</b>	<b>Current Year Expenditures</b>	<b>Accrued (Unearned) Revenue 6/30/18</b>
<b>U.S. Department of Education</b>								
Passed Through Michigan Dept of Education								
Title I Part A								
	84.010	1815301718	143,704	-	-	130,394	133,119	2,725
	84.010	1715301617	145,336	-	18,240	18,240	-	-
			<u>289,040</u>	<u>-</u>	<u>18,240</u>	<u>148,634</u>	<u>133,119</u>	<u>2,725</u>
Title II Part A								
	84.367	1805201718	33,842	-	-	31,801	32,542	741
	84.367	1705201617	69,378	67,560	357	357	-	-
			<u>103,220</u>	<u>67,560</u>	<u>357</u>	<u>32,158</u>	<u>32,542</u>	<u>741</u>
Title IV	84.424	1807501718	10,000	-	-	8,339	10,000	1,661
Total Passed Through MDE			<u>402,260</u>	<u>67,560</u>	<u>18,597</u>	<u>189,131</u>	<u>175,661</u>	<u>5,127</u>
Climate Transformation Grant	84.184g	S184G1400192	451,955	414,983	12,059	432,737	451,955	31,277
<b>Total U.S. Department of Education</b>			<u>854,215</u>	<u>482,543</u>	<u>30,656</u>	<u>621,868</u>	<u>627,616</u>	<u>36,404</u>
<b>Total Federal Financial Assistance</b>			<u>\$ 1,252,130</u>	<u>\$ 544,704</u>	<u>\$ 30,656</u>	<u>\$ 921,947</u>	<u>\$ 928,351</u>	<u>\$ 37,060</u>

## ELKTON PIGEON BAY PORT LAKER SCHOOLS

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2018

1. Basis of Presentation – The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Elkton Pigeon Bay Port Laker Schools under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Elkton Pigeon Bay Port Laker Schools, it is not intended to and does not present the financial position or changes in net position of Elkton Pigeon Bay Port Laker Schools.
2. Summary of Significant Accounting Policies - Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursements. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.
3. The District qualifies for low-risk auditee status. Management has utilized the Cash Management System (CMS) and the Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.
4. Reconciliation to the Financial Statements:

General Fund	\$ 632,026
Special Revenue Funds:	
Food Service Fund	<u>296,325</u>
Current Year Exenditures	<u>\$ 928,351</u>

5. Reconciliation of Schedule of Federal Expenditures:

Total Expenditures	<u>\$ 928,351</u>
Total Receipts (Cash Basis)	\$ 921,947
Accrued revenue 2016/17	(30,656)
Accrued revenue 2017/18	<u>37,060</u>
Total	<u>\$ 928,351</u>

**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  
Elkton Pigeon Bay Port Laker Schools  
Pigeon, Michigan

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

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Nietzke & Faupel P.C.*

NIETZKE & FAUPEL, P.C.  
Pigeon, Michigan

October 10, 2018

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

To the Board of Education  
Elkton Pigeon Bay Port Laker Schools  
Pigeon, Michigan

**Report on Compliance for Each Major Federal Program**

We have audited Elkton Pigeon Bay Port Laker School's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Elkton Pigeon Bay Port Laker School's major federal programs for the year ended June 30, 2018. Elkton Pigeon Bay Port Laker School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Elkton Pigeon Bay Port Laker School's compliance.

***Opinion on Each Major Federal Program***

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

## Report on Internal Control Over Compliance

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

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

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

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

*Nietzke & Faupel P.C.*

NIETZKE & FAUPEL, P.C.  
Pigeon, Michigan

October 10, 2018

**ELKTON PIGEON BAY PORT LAKER SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2018**

**A. SUMMARY OF AUDITOR'S RESULTS**

***Financial Statements***

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

► Material weakness (es) identified? \_\_\_\_\_ Yes   X   No  
 ► Significant deficiency (ies) identified? \_\_\_\_\_ Yes   X   None reported  
 Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

***Federal Awards***

Internal control over major programs:

► Material weakness (es) identified? \_\_\_\_\_ Yes   X   No  
 ► Significant deficiency (ies) identified? \_\_\_\_\_ Yes   X   None reported

Type of auditors' report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported with Title 2 CFR Section 200.516(a)? \_\_\_\_\_ Yes   X   No

Identification of major programs:

<u>CFDA Number(s)</u> 84.184g	<u>Name of Federal Program or Cluster</u> Climate Transformation Grant
----------------------------------	---

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as a low risk auditee?   X   Yes \_\_\_\_\_ No

(Continued)



**ELKTON PIGEON BAY PORT LAKER SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2018**

**B. FINDINGS-FINANCIAL STATEMENTS**

1. None.

**C. FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS**

1. None.

**ELKTON PIGEON BAY PORT LAKER SCHOOLS**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED JUNE 30, 2018**

There were no findings or questioned costs for the year ended June 30, 2017.