

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
Peck, Michigan

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary and  
additional supplementary information)

**YEAR ENDED JUNE 30, 2018**

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## Independent Auditor's Report

To the Board of Education  
Sanilac Intermediate School District

### **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 Sanilac Intermediate School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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 Sanilac Intermediate School District as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

As discussed in Note 11 to the financial statements, Sanilac Intermediate School District 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 Sanilac Intermediate School District's basic financial statements. The additional supplementary 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), are 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 were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12 2018 on our consideration of Sanilac Intermediate School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting compliance and the results of that testing, and not to provide an opinion on the effectiveness of Sanilac Intermediate School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering Sanilac Intermediate School District's internal control over financial reporting and compliance.



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

October 12, 2018

SANILAC INTERMEDIATE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018

Sanilac Intermediate School District, located in Peck, Michigan, is one of 57 Intermediate School Districts in the State of Michigan and services seven local schools districts in Sanilac County.

Generally accepted accounting principles (GAAP) according to GASB 34, require the reporting of two types of financial statements: Fund Financial Statements and District Wide Financial Statements.

## **FINANCIAL HIGHLIGHTS**

The liabilities of Sanilac Intermediate School District exceeded its assets at the close of Fiscal Year 2018 by \$6,688,385 (net position). For the year ended June 30, 2018, the District restated beginning of the year Net Position for the implementation of 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. Current year net position increased by \$379,056. The 2017 figures have not been updated for the adoption of GASB 75.

At the end of the current fiscal year, the aggregated fund balance for the District's operating funds (general fund, special education fund, career technical preparation fund, and other nonmajor funds) was \$4,013,651.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction of the district's basic financial statements. The district's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary and other supplementary information in addition to the basic financial statements themselves.

### **Fund Financial Statements:**

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Special Education and Career Technical Preparation Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

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

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

### **District Wide Financial Statements:**

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Position of the District wide financial statements.

SANILAC INTERMEDIATE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Sanilac Intermediate School District net position – the difference between assets plus deferred outflows and liabilities plus deferred inflows, as reported in the statement of net position – as one way to measure the School District's financial health or financial position. Over time, changes in the School District's net position – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net position and the statement of activities report the governmental activities for the School District, which encompasses all of the School District's services, including instruction, support services. Property taxes, unrestricted State aid, and State and federal grants finance most of these activities.

The district wide financial statements can be found on pages 11 & 12.

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

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

SANILAC INTERMEDIATE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018

**SUMMARY OF NET POSITION:**

The following summarizes the net position for the fiscal years ended June 30, 2018 and 2017:

	<u>District's Net Position</u>	
	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Current Assets	\$5,603,272	\$4,975,960
Non-Current Assets	<u>4,361,838</u>	<u>4,414,733</u>
 TOTAL ASSETS	 <u>9,965,110</u>	 <u>9,390,693</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Related to other postemployment benefits	262,628	
Related to pensions	<u>2,880,915</u>	<u>1,688,159</u>
 TOTAL DEFERRED OUTFLOWS OF RESOURCES	 <u>3,143,543</u>	 <u>1,688,159</u>
 <u>LIABILITIES</u>		
Current Liabilities	1,730,171	1,328,140
Long-Term Liabilities	462,664	693,349
Net other postemployment benefit liability	4,151,996	
Net Pension Liability	<u>12,176,381</u>	<u>11,444,127</u>
Total Liabilities	<u>18,521,212</u>	<u>13,465,616</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>		
Related to state aid funding for pension and other postemployment benefits	487,075	355,691
Related to other postemployment benefits	140,368	
Related to pensions	<u>648,383</u>	<u>33,487</u>
Total Deferred Inflows of Resources	<u>1,275,826</u>	<u>389,178</u>
 <u>NET POSITION</u>		
Net investment in capital assets	3,816,180	3,766,214
Unrestricted	<u>(10,504,565)</u>	<u>(6,542,156)</u>
Total Net Position	<u><u>(\$6,688,385)</u></u>	<u><u>(\$2,775,942)</u></u>

SANILAC INTERMEDIATE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018

**RESULTS OF OPERATIONS:** For the fiscal years ended June 30, 2018 and 2017, the District's changes in net position were as follows:

	<u>2018</u>	<u>2017</u>
<b><u>REVENUES</u></b>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$316,018	\$312,282
Property Taxes Levied for Special Education Operations	1,138,150	1,124,883
Property Taxes Levied for Career Technical Preparation Operations	2,530,948	2,500,817
State of Michigan Foundation Aid	4,527,451	4,307,315
Other General Revenues	897,345	603,698
Total General Revenues	<u>9,409,912</u>	<u>8,848,995</u>
<u>Operating Grants:</u>		
Federal and State	2,262,022	2,161,229
Total Operating Grants	<u>2,262,022</u>	<u>2,161,229</u>
<u>Charges for Services:</u>		
Hot Lunch	10,818	9,980
Special Education Fund	427,856	352,520
Career Technical Preparation Fund	168,851	174,585
Total Charges for Services	<u>607,525</u>	<u>537,085</u>
Total Revenues	<u>12,279,459</u>	<u>11,547,309</u>
<b><u>EXPENSES</u></b>		
Instruction & Instructional Support	3,960,727	3,732,752
Support Services	5,124,514	4,553,196
Community Services	610,960	617,804
Food Service	10,818	9,762
Capital Projects	0	0
Transfers to other governmental units	1,844,488	2,016,762
Interest on Long-Term Debt	15,660	15,613
Unallocated Depreciation	333,236	310,854
Total Expenses	<u>11,900,403</u>	<u>11,256,743</u>
CHANGE IN NET POSITION	\$379,056	\$290,566
BEGINNING NET POSITION, AS RESTATED	<u>(7,067,441)</u>	<u>(3,066,508)</u>
ENDING NET POSITION	<u><u>(\$6,688,385)</u></u>	<u><u>(\$2,775,942)</u></u>



SANILAC INTERMEDIATE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2018, the District's total net position increased by \$379,056 to a total of (\$6,688,385). The District implemented GASB 75 that went into effect for the 6/30/2018 year end. It required recording the proportionate share of other postemployment benefit expense as defined by the Governmental Accounting Standards Board (GASB) on the district-wide reconciliations. Sanilac ISD's net OPEB liability is \$4,151,996; the second largest liability on the Statement of Net Position. It does not directly impact the fund statements, the expense on the fund statements continues to be handled as in prior years. GASB 75 requires additional note disclosures and additional required supplementary information schedules.

**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS**

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. The fund balance for the general fund increased by \$54,185 during the year.

Revenues were approximately \$2.64 million. This amount is below the original budget of \$2.8 million and the final budget of \$2.64 million. A portion of the Great Start Readiness Program (GSRP) was reclassified from current revenue to deferred revenue. Sanilac ISD acts as the fiscal agent for GSRP funding which is flowed through to the Local Education Agencies (LEA'S) and NEMSCA (Northeast MI Community Service Agency). LEA's and NEMSCA have until September 30, 2018 to spend all of their allocation. Sanilac ISD has seven districts that will submit expenses through September 30, 2018. This results in additional revenue and expense being recognized in 2018-19.

Expenditures and transfer out were approximately \$2.59 million. That amount is above the original budget of \$2.85 million and below the final budget of \$2.64 million. The actual expenditures were below the final budget due to GSRP, GSC (Great Start Collaborative), and preschool scholarships. This all plays into the above explanation of deferring revenue.

The major source of general fund revenues is state aid and taxes. An analysis of the major revenue sources is as follows:

1. State of Michigan Aid (Section 81)

The State of Michigan aid provided under Section 81 of the State Aid Act provides the majority of state aid to the District's General Fund. Funding to the District under Section 81 is provided to comply with the requirements of the State Aid Act and to provide technical assistance to local districts as authorized by the intermediate school board.

2. Property Taxes Levied For General Operations (General Fund Homestead and Non-Homestead Taxes)

The District levies .2026 mills of property taxes for operations (General Fund) on Homestead and Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's property tax revenue for the 2017-18 fiscal year was \$316,018; an increase of \$3,926 from the prior year due to total tax collections received at year end.

SANILAC INTERMEDIATE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018

Special Education Fund

Fund balance for the special education fund increased by \$259,813 during the year. The actual revenue was approximately \$5.47 million. That amount is under the original budget of \$5.1 million and the final budget of \$5.41 million. Special Ed has the same situation as General Fund does with GSRP funding. Special Ed receives \$1.7 million from IDEA Flowthrough. The Sanilac ISD flows a portion of IDEA funding to their LEA'S based on student count and a fixed amount per student. The IDEA grant is on a two year cycle. Depending on when the LEA's submit their reimbursements, reflects directly on how much federal revenue can be requested and booked.

Expenditures and transfers were approximately \$5.21 million. The original budget was \$5.1 million and the final budget \$5.3 million. The final expenditures were more due to conservative budgeting practices and lower than anticipated costs for self-funded dental and IDEA carry over.

The major source of special education revenues is federal grants, state aid and taxes. An analysis of the major revenue sources is as follows:

1. State of Michigan Aid (Section 51)

The State of Michigan aid provided under Section 51 of the State Aid Act provides the majority of state aid to the District's Special Education Fund. Funding to the District under Section 51 is provided to reimburse the District for unreimbursed costs of special education programs, services and special education personnel.

2. Property Taxes Levied For Special Education

The District levies .7298 mills of property taxes for operations (Special Education Fund) on Homestead and Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's property tax revenue for the 2017-18 was \$1,138,150, an increase of \$12,759 from the prior year due to total tax collections received at year end.

Career Technical Preparation Fund

Fund balance for the career technical preparation fund increased by \$43,943 during the year. The actual revenue was approximately \$4.2 million. That amount is above the original budget of \$3.9 million and the final budget of \$4.1 million.

Expenditures and transfers out were approximately \$4.1 million. The original budget was \$3.9 million and the final budget \$4.1 million. The final expenditures were greater due to capital outlay building projects.

The major source of career technical preparation revenues is taxes. An analysis of the major revenue sources is as follows:

1. State of Michigan Aid (Sections 61 and 62)

The State of Michigan aid provided under Sections 61 and 62 of the State Aid Act provides the majority of state aid to the District's Career Technical Preparation Fund. Funding to the District under Sections 61 and 62 is provided to reimburse, on an added cost basis, the District for unreimbursed costs of its career technical education center and career technical programs and services.

2. Property Taxes Levied For Career Technical Preparation

The District levies 1.6227 mills of property taxes for operations (Career Technical Preparation Fund) on Homestead and Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

SANILAC INTERMEDIATE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018

The District's non-homestead property tax revenue for the 2017-18 fiscal year was \$2,530,948, an increase of \$26,581 from the prior year due to total tax collections received at year end.

**GENERAL FUND BUDGETARY HIGHLIGHTS:**

**GENERAL FUND BUDGET VS. ACTUAL**

Fiscal Year	Original Budget	Final Budget	Actual	Variance Original & Final Budget %	Variance Actual & Final Budget %
Revenue	\$2,858,860	\$2,644,120	\$2,644,254	7.51	0.01
Expenditures	2,853,095	2,642,961	2,589,507	7.37	(2.02)
Other financing sources	0	(500)	(562)		12.40
<b><u>TOTAL</u></b>	<b><u>\$5,765</u></b>	<b><u>\$659</u></b>	<b><u>\$54,185</u></b>		

**SPECIAL EDUCATION FUND BUDGET VS. ACTUAL**

Fiscal Year	Original Budget	Final Budget	Actual	Variance Original & Final Budget %	Variance Actual & Final Budget %
Revenue	\$5,065,378	\$5,408,239	\$5,470,120	(6.77)	1.14
Expenditures	5,063,712	5,289,388	5,308,135	(4.46)	(0.35)
Other financing sources	0	0	97,828		
<b><u>TOTAL</u></b>	<b><u>\$1,666</u></b>	<b><u>\$118,851</u></b>	<b><u>\$259,813</u></b>		

**CAREER TECHNICAL PREPARATION FUND BUDGET VS. ACTUAL**

Fiscal Year	Original Budget	Final Budget	Actual	Variance Original & Final Budget %	Variance Actual & Final Budget %
Revenue	\$3,946,714	\$4,143,567	\$4,154,006	(4.99)	0.25
Expenditures	3,774,855	3,984,226	3,993,008	(5.55)	(0.22)
Other financing sources	(117,056)	(117,056)	(117,055)	0.00	0.00
<b><u>TOTAL</u></b>	<b><u>\$54,803</u></b>	<b><u>\$42,285</u></b>	<b><u>\$43,943</u></b>		

**ANALYSIS OF BUDGETS:**

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

As a matter of practice, Sanilac Intermediate School District amends its budget twice during the school year. The June 2018 budget amendment was the final budget for the fiscal year.

SANILAC INTERMEDIATE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

The district's net investment in capital assets decreased by \$52,895 during the fiscal year. At the end of the fiscal year 2017-18, the district had \$10.3 million invested in land, building, office, instructional, and transportation equipment. Of this amount, \$6.0 million in depreciation has been recognized over the years. The district's net investment capital outlay is \$4.36 million. This can be summarized as follows:

	Balance 7/1/2017	Additions	Deductions	Balance 06/30/18
Capital Assets	\$10,115,065	\$280,341	\$0	10,395,406
Less: Accumulated Depreciation	(5,700,332)	(333,236)	0	(6,033,568)
Capital Assets, Net of Accum. Depr.	<u>\$4,414,733</u>	<u>(\$52,895)</u>	<u>\$0</u>	<u>\$4,361,838</u>

Long-Term Debt

At the end of the 2017-18 year, the district had a total of \$597,220 in long-term debt of which \$134,556 was due within one year and \$462,664 was due in more than one year.

	Principal Balance 6/30/17	Adjustments	Deductions	Principal Balance 6/30/18
General Obligation Bonds	\$584,674	\$0	\$103,084	\$481,590
Bus Loan	63,845	97,828	97,605	64,068
Unpaid Sick & Vacation Payable	44,830	6,732	0	51,562
Total Long-Term Obligations	<u>\$693,349</u>	<u>\$104,560</u>	<u>\$200,689</u>	<u>\$597,220</u>

Over the years, the District has issued bonds for approximately \$1.4 million. The bonds mature serially through May 1, 2019 and October 15, 2025, at varying principal amounts. Interest rates on the bonds range from 1.95% to 4.25% per annum. The balance of the bonds at June 30, 2018 was \$481,590. See page 50 for additional information.

**CLOSING STATEMENT**

The overall financial condition of all funds remains very stable for the Sanilac Intermediate School District. The district continues to partner with local districts and neighboring ISD's in attempt to reduce cost while maintaining and in some cases expanding programs and services. The district's fund equity in each of its three major funds has continued to grow each of the last several years. The district is committed to adopting budgets that are structurally sound where the annual revenues exceed the reoccurring expenses. Fund Equity will only be used to address one-time expenses to address equipment maintenance needs.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Sanilac Intermediate School District at 175 E. Aitken Road, Peck, MI 48466.

## **BASIC FINANCIAL STATEMENTS**

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

	<b>GOVERNMENTAL ACTIVITIES</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 4,281,334
Accounts receivable	55,278
Intergovernmental receivables	1,258,434
Prepaid expenses	8,226
Capital assets not being depreciated	62,155
Capital assets, net of accumulated depreciation	<u>4,299,683</u>
<b>TOTAL ASSETS</b>	<u>9,965,110</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Related to other postemployment benefits	262,628
Related to pensions	<u>2,880,915</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>3,143,543</u>
<b>LIABILITIES</b>	
Accounts payable	250,670
Salaries payable	461,927
Accrued retirement	186,704
Accrued expenses	117,929
Unearned revenue	578,385
Noncurrent liabilities:	
Due within one year	134,556
Due in more than one year	462,664
Net other postemployment benefit liability	4,151,996
Net pension liability	<u>12,176,381</u>
<b>TOTAL LIABILITIES</b>	<u>18,521,212</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Related to pensions	648,383
Related to other postemployment benefits	140,368
Related to state aid funding for pension and other postemployment benefits	<u>487,075</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>1,275,826</u>
<b>NET POSITION</b>	
Net investment in capital assets	3,816,180
Unrestricted	<u>(10,504,565)</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ (6,688,385)</u></u>

See notes to financial statements.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Position
Governmental activities:				
Instruction	\$ 3,960,727		\$ 678,607	\$ (3,282,120)
Support services	5,124,514	\$ 607,525	1,583,415	(2,933,574)
Community services	610,960			(610,960)
Food service	10,818			(10,818)
Transfers to other governmental units	1,844,488			(1,844,488)
Interest on long-term debt	15,660			(15,660)
Unallocated depreciation	333,236			(333,236)
Total governmental activities	<u>\$ 11,900,403</u>	<u>\$ 607,525</u>	<u>\$ 2,262,022</u>	<u>(9,030,856)</u>
General revenues:				
Property taxes				3,979,564
State sources - unrestricted				4,527,451
Investment revenue				2,165
Transfers from other governmental units				510,588
Miscellaneous				390,144
Total general revenue				<u>9,409,912</u>
Change in net position				379,056
Net position, beginning of year, as restated				<u>(7,067,441)</u>
Net position, end of year				<u>\$ (6,688,385)</u>

See notes to financial statements.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2018

	<b>SPECIAL REVENUE</b>			<b>OTHER NONMAJOR GOVERNMENTAL FUNDS</b>	<b>TOTAL GOVERNMENTAL FUNDS</b>
	<b>GENERAL FUND</b>	<b>SPECIAL EDUCATION</b>	<b>CAREER TECHNICAL PREPARATION</b>		
<b><u>ASSETS</u></b>					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 903,791	\$ 1,460,879	\$ 1,915,514	\$ 1,150	\$ 4,281,334
Accounts receivable	-	-	55,278	-	55,278
Due from other governmental units	435,052	666,411	156,955	16	1,258,434
Prepaid expenditures	5,540	795	1,891		8,226
<b>TOTAL ASSETS</b>	<b><u>\$ 1,344,383</u></b>	<b><u>\$ 2,128,085</u></b>	<b><u>\$ 2,129,638</u></b>	<b><u>\$ 1,166</u></b>	<b><u>\$ 5,603,272</u></b>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>					
LIABILITIES:					
Accounts payable	\$ 103,760	\$ 81,567	\$ 65,343	\$ -	\$ 250,670
Salaries payable	-	301,137	160,790		461,927
Accrued payroll liabilities	849	67,452	43,618	16	111,935
Accrued retirement	3,908	108,739	74,057		186,704
Unearned revenue	556,184	10,991	11,210		578,385
<b>TOTAL LIABILITIES</b>	<b><u>664,701</u></b>	<b><u>569,886</u></b>	<b><u>355,018</u></b>	<b><u>16</u></b>	<b><u>1,589,621</u></b>
FUND BALANCES:					
Nonspendable:					
Prepaid expenditures	5,540	795	1,891		8,226
Restricted for:					
Special education		1,427,574			1,427,574
Vocational education			1,749,708		1,749,708
Hot lunch				1,150	1,150
Assigned for:					
Compensated absences	6,911	21,630	23,021		51,562
Medicaid obligation		108,200			108,200
Unassigned	667,231				667,231
<b>TOTAL FUND BALANCES</b>	<b><u>679,682</u></b>	<b><u>1,558,199</u></b>	<b><u>1,774,620</u></b>	<b><u>1,150</u></b>	<b><u>4,013,651</u></b>
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<b><u>\$ 1,344,383</u></b>	<b><u>\$ 2,128,085</u></b>	<b><u>\$ 2,129,638</u></b>	<b><u>\$ 1,166</u></b>	<b><u>\$ 5,603,272</u></b>

See notes to financial statements.



**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

Total Fund Balances - Governmental Funds	\$ 4,013,651
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Amounts reported for governmental activities in the statement of net position are different because:

Deferred outflows of resources-related to pensions	2,880,915
Deferred outflows of resources-related to other postemployment benefits	262,628
Deferred inflows of resources-related to pensions	(648,383)
Deferred inflows of resources-related to other postemployment benefits	(140,368)
Deferred inflows of resources-related to state pension and other postemployment benefit funding	(487,075)

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

Cost of capital assets	10,395,406
Accumulated depreciation	(6,033,568)

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

Bonds payable	(545,658)
Accrued interest on long-term debt	(5,994)
Compensated absences	(51,562)
Net other postemployment benefit liability	(4,151,996)
Net pension liability	<u>(12,176,381)</u>

Net Position of Governmental Activities	<u><u>\$ (6,688,385)</u></u>
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See notes to financial statements.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2018**

	<b>SPECIAL REVENUE</b>			<b>OTHER NONMAJOR GOVERNMENTAL FUNDS</b>	<b>TOTAL GOVERNMENTAL FUNDS</b>
	<b>GENERAL FUND</b>	<b>SPECIAL EDUCATION</b>	<b>CAREER TECHNICAL PREPARATION</b>		
REVENUES:					
Local sources					
Property taxes	\$ 316,018	\$ 1,138,150	\$ 2,530,948	\$ -	\$ 3,985,116
Medicaid		458,380			458,380
Other local revenues	45,281	38,630	419,588	1,752	505,251
State sources	2,165,960	1,567,065	794,246	180	4,527,451
Federal sources	-	1,861,779	391,096	9,147	2,262,022
Other	536	15,741	14,374		30,651
Transfers from other governmental units	116,459	390,375	3,754		510,588
<b>TOTAL REVENUES</b>	<b>2,644,254</b>	<b>5,470,120</b>	<b>4,154,006</b>	<b>11,079</b>	<b>12,279,459</b>
EXPENDITURES:					
Instruction	-	1,778,778	2,175,217	10,818	3,964,813
Student services		1,485,485	4,751		1,490,236
Instructional support	399,444	570,089	141,059		1,110,592
General administration	121,080	13,981	226,641		361,702
School administration		217,879	151,037		368,916
Business administration	91,206	201	103,413		194,820
Operation and maintenance	183,471	92,346	383,568		659,385
Transportation		611,331			611,331
Other support services	253,666	1,000	184,957		439,623
Community services	155,711	3,979	451,270		610,960
Debt service:					
Principal repayment	33,304	64,301		103,084	200,689
Interest and fees		2,762		13,971	16,733
Capital Outlay			144,235		144,235
Transfers to other governmental units	1,351,625	466,003	26,860	-	1,844,488
<b>TOTAL EXPENDITURES</b>	<b>2,589,507</b>	<b>5,308,135</b>	<b>3,993,008</b>	<b>127,873</b>	<b>12,018,523</b>
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES	<u>54,747</u>	<u>161,985</u>	<u>160,998</u>	<u>(116,794)</u>	<u>260,936</u>
OTHER FINANCING SOURCES (USES):					
Proceeds from bus loan		97,828			97,828
Operating transfers in	-	-	-	117,617	117,617
Operating transfers out	(562)	-	(117,055)	-	(117,617)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(562)</u>	<u>97,828</u>	<u>(117,055)</u>	<u>117,617</u>	<u>97,828</u>
CHANGES IN FUND BALANCES	54,185	259,813	43,943	823	358,764
FUND BALANCES - BEGINNING OF YEAR	625,497	1,298,386	1,730,677	327	3,654,887
FUND BALANCES - END OF YEAR	<u>\$ 679,682</u>	<u>\$ 1,558,199</u>	<u>\$ 1,774,620</u>	<u>\$ 1,150</u>	<u>\$ 4,013,651</u>

See notes to financial statements.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2018**

Changes in fund balances--governmental funds	\$358,764
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation:

Depreciation expense	(333,236)
Capital outlay	280,341

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable at the beginning of the year	7,067
Accrued interest payable at the end of the year	(5,994)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net position. Also, governmental funds report the effect of premium, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items is as follows:

Payments on debt	200,689
Proceeds from bus loan	(97,828)

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued absences at the beginning of the year	44,830
Accrued absences at the end of the year	(51,562)

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

Pension related items	201,297
Other postemployment benefit related items	261,763

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

State aid funding for pension and other postemployment benefit	<u>(487,075)</u>
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Change in net position of governmental activities	<u><u>\$379,056</u></u>
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See notes to financial statements.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**JUNE 30, 2018**

	<u><b>AGENCY FUND</b></u>
<u><b>ASSETS</b></u>	
Cash and cash equivalents	<u><u>\$ 111,450</u></u>
<u><b>LIABILITIES</b></u>	
Liabilities:	
Due to student groups	<u><u>\$ 111,450</u></u>

See notes to financial statements.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

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

**DESCRIPTION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS:**

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

**REPORTING ENTITY:**

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

**BASIS OF PRESENTATION – GOVERNMENT-WIDE FINANCIAL STATEMENTS:**

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

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

**BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS:**

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

The District reports the following major governmental funds:

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

The *special education special revenue fund* which accounts for special education programs.

The *vocational education special revenue fund (career technical preparation fund)* which accounts for technical education programs.

**OTHER NON-MAJOR FUNDS:**

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The nonmajor special revenue fund consists of the food service fund.

The Debt Service Funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. The District reports on two Debt Funds, the 2005 & 2009 Debt Retirement Funds.

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

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

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

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

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING:**

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

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

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

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

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

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

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

**BUDGETARY INFORMATION:**

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue funds. 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.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

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

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

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

1. Cash and equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and certificates of deposits.

2. Investments

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

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.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

3. Inventories and prepaid items

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

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

4. Capital assets

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

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

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

Buildings and improvements	50 years
Land improvements	10 – 20 years
Furniture and equipment	5 – 15 years
Transportation equipment	5 – 15 years

5. 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.

6. Deferred outflows/inflows of resources

Deferred outflows:

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



**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

Deferred inflows:

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

7. Net position flow assumption

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

8. Fund balance flow assumptions

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

9. Fund balance policies

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

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

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

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

**REVENUES AND EXPENDITURES/EXPENSES:**

1. Program revenues

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

2. Property taxes

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

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

<b><u>FUND</u></b>	<b><u>MILLS</u></b>
General Fund	0.2026
Special Revenue Funds:	
Special Education Fund	0.7298
Vocational Education Fund	1.6227

3. Compensated absences

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

4. Long-term obligations

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

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

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

**NOTE 2 - DEPOSITS AND INVESTMENTS:**

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

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

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

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

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2018, \$4,244,122 of the District's bank balance of \$4,494,122 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. The carrying value on the books for deposits at the end of the year was \$4,392,784.

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counter party, 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.

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

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

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

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

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

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

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

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

The above amounts are reported in the financial statements as follows:

Cash & cash equivalents - Agency Fund	\$ 111,450
Cash & cash equivalents - District Wide	<u>4,281,334</u>
	<u><u>\$ 4,392,784</u></u>

**NOTE 3 – INTERGOVERNMENTAL RECEIVABLES:**

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

Governmental Units:	
State Aid	\$ 803,643
Federal Revenue	175,227
Other	<u>279,564</u>
	<u><u>\$ 1,258,434</u></u>

Amounts due from governmental units include amounts due from federal, state and local sources for various projects and programs. No allowance for doubtful accounts is considered necessary based on previous experience.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

**NOTE 4 – CAPITAL ASSETS:**

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

<b><u>Governmental Activities</u></b>	<b>Balance July 1, 2017</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2018</b>
Assets not being depreciated-land	\$ 62,155	\$ -	\$ -	\$ 62,155
Assets being depreciated:				
Building and Improvements	8,450,428	101,191		8,551,619
Land Improvements	17,246			17,246
Equipment and Furniture	1,089,366	81,322		1,170,688
Vehicles	495,870	97,828		593,698
Total assets being depreciated	10,052,910	280,341	-	10,333,251
Accumulated depreciation:				
Building and Improvements	(4,416,996)	(218,803)		(4,635,799)
Land Improvements	(15,746)	(500)		(16,246)
Equipment and Furniture	(931,624)	(39,755)		(971,379)
Vehicles	(335,966)	(74,178)		(410,144)
Total accumulated depreciation	(5,700,332)	(333,236)	-	(6,033,568)
Net depreciated capital assets	4,352,578	(52,895)	-	4,299,683
Governmental activities capital assets, net	\$ 4,414,733	\$ (52,895)	\$ -	\$ 4,361,838

Depreciation for the fiscal year ended June 30, 2018 amounted to \$333,236. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

**NOTE 5 - RISK MANAGEMENT:**

The District is exposed to various risk 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 a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the 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 pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

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

**NOTE 6 – LONG-TERM DEBT:**

**2005 School Building and Site Bonds (General Obligation - Limited Tax)**

The bonds were issued March 8, 2005 in the amount of \$425,000. The bonds mature serially through May 1, 2019, at varying principal amounts. Interest rates on the bonds range from 2.90% to 4.25% per annum. \$ 40,000

**2009 School Building and Site Qualified Zone Academy Bonds**

The bonds were issued on October 15, 2009 in the amount of \$946,262 for the purpose of making energy efficient improvements to the school facilities. The bonds mature serially through October 15, 2024, with annual principal payments in the amount of \$63,084. Interest rates on the bonds are 1.95% per annum. 441,590

**School Bus Loan**

Sanilac Intermediate School District purchased a new school bus on October 5, 2017 for \$97,878 with an interest rate of 3.5%. The note matures in October 2019. 64,068

Total bonds & other debt 545,658

Compensated absences 51,562

Total long-term debt \$ 597,220

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

**Annual Principal Requirements**

The annual principal requirements for all debts outstanding as of June 30, 2018 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2019	\$ 134,556	\$ 12,598	\$ 147,154
June 30, 2020	95,680	8,545	104,225
June 30, 2021	63,084	6,151	69,235
June 30, 2022	63,084	4,920	68,004
June 30, 2023	63,084	3,690	66,774
June 30, 2024-2025	126,170	3,690	129,860
	<u>545,658</u>	<u>39,594</u>	<u>585,252</u>
Compensated absences	<u>51,562</u>	<u>-</u>	<u>51,562</u>
Total long-term debt	<u>\$ 597,220</u>	<u>\$ 39,594</u>	<u>\$ 636,814</u>

The payment dates for sick days payable is undeterminable. The interest expense on long-term obligations for the year was \$15,660.

**Changes in General Long-Term Debt**

	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>	<u>Due In More</u>
<u>Governmental Activities:</u>	<u>July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2018</u>	<u>One Year</u>	<u>Than One Year</u>
General Obligation	\$ 584,674	\$ -	\$ 103,084	\$ 481,590	\$ 103,084	\$ 378,506
Bus Loan	63,845	97,828	97,605	64,068	31,472	32,596
Compensated absences	44,830	6,732		51,562		51,562
Total Governmental Activities	<u>\$ 693,349</u>	<u>\$ 104,560</u>	<u>\$ 200,689</u>	<u>\$ 597,220</u>	<u>\$ 134,556</u>	<u>\$ 462,664</u>

**NOTE 7 – INTERFUND RECEIVABLES AND PAYABLES:**

There were no interfund receivables and payables that existed at June 30, 2018.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

**NOTE 8 – RETIREMENT AND POSTEMPLOYMENT BENEFITS:**

**Plan Description** - The Michigan Public School Employees' 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 <http://michigan.gov/orsschools>.

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

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

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

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

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). 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 form 3.0% - 7.0%.

**Pension Reform 2010** - On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPERS) who became a member of 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 Plan members.

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



**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

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

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

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

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

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

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

**Option 4** – Members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the 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.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

**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 member worked through 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.

**Member Contributions**

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

**Employer Contributions**

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

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

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

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

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

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

The District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately \$1,245,000, with \$1,224,000 specifically for the Defined Benefit Plan.

The District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total. OPEB benefits were approximately \$316,000, with \$295,000 specifically for the Defined Benefit Plan.

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

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

**Pension Liabilities**

At June 30, 2018, the District reported a liability of \$12,176,381 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2016 and rolled forward using generally accepted actuarial procedures. The Reporting Unit's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the Reporting Unit's proportion was 0.04699 and .04587 percent.

<b>MPSERS (Plan) Non-university employers:</b>	<b>September 30, 2017</b>	<b>September 30, 2016</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	0.04699	0.04587
Net Pension liability for the District	\$ 12,176,381	\$ 11,444,127

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended June 30, 2018, the Reporting Unit recognized pension expense of \$1,376,285.

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>Deferred Outflows of Resources</b>	<b>Deferred (Inflows) of Resources</b>
Change of assumptions	\$ 1,334,019	
Net difference between projected and actual earnings on pension plan investments		\$ (582,111)
Difference between expected and actual experience	105,821	(59,747)
Change in proportion and differences between employer contributions and proportionate share of contributions	349,211	(6,525)
Reporting Unit contributions subsequent to the measurement date	1,091,864	
Total	<u>\$ 2,880,915</u>	<u>\$ (648,383)</u>

\$1,091,864 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

<u>Year ended September 30,</u>	<u>Amount</u>
2018	\$ 336,000
2019	533,839
2020	265,870
2021	4,959

**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 \$4,151,996 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 0.04689 percent.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

<u>MPERS (Plan) Non-university employees</u>	<u>September 30, 2017</u>
Total Other Postemployment Benefit Liability	\$ 13,920,945,991
Plan Fiduciary Net Position	\$ 5,065,474,948
Net Other Postemployment Benefit Liability	\$ 8,855,471,043
Proportionate Share	0.04689
Net Other Postemployment Benefit Liability for the District	\$ 4,151,996

**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 \$277,796.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Net difference between projected and actual earnings on pension plan investments		\$ (96,161)
Difference between expected and actual experience		(44,207)
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 355	
Reporting Unit contributions subsequent to the measurement date	<u>262,273</u>	
Total	<u>\$ 262,628</u>	<u>\$ (140,368)</u>

\$262,273, 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>Year ended September 30,</u>	<u>Amount</u>
2018	\$ (33,841)
2019	(33,841)
2020	(33,841)
2021	(33,841)
2022	(4,649)

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

**Actuarial Assumptions**

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

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

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

Inflation – 3.0%

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

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 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 rate was 7.5% (7% Pension Plus Plan), and the other postemployment benefit 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

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

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

<b>Investment Category</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return*</b>
Domestic Equity Pools	28.0%	5.6%
Alternate Investment Pools	18.0%	8.7%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	-0.1%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.0%
Short Term Investment Pools	2.0%	-0.90%
<b>Total</b>	<b>100.0%</b>	

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

Pension discount rate - The discount rate used to measure the total pension liability was 7.5% (7% for Pension Plan Plus). 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 discount rate did not change from the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. 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 active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	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	\$ 15,861,774	\$ 12,176,381	\$ 9,073,514

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

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

	Other Postemployment Benefit		
	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Reporting Unit's proportionate share of the net other postemployment benefit liability	<u>\$ 4,863,187</u>	<u>\$ 4,151,996</u>	<u>\$ 3,548,417</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>\$ 3,516,182</u>	<u>\$ 4,151,996</u>	<u>\$ 4,873,918</u>

**Pension and OPEB Plan Fiduciary Net Position**

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

**Payable to the Pension and OPEB Plan**

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

**Other Information**

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



**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

**NOTE 9 – TRANSFERS:**

The composition of interfund transfers at June 30, 2018 is as follows:

<b>Transfer In</b>	<b>Transfer Out</b>		
	General Fund	Career Technical Preparation	Total
Nonmajor Funds	\$ 562	\$ 117,055	\$ 117,617
Total	\$ 562	\$ 117,055	\$ 117,617

The transfers from the Career Technical Preparation Fund to the Debt Retirement Fund are for QZAB loan requirements. The transfer from General Fund to Food Service Fund is to reimburse for negative balances.

**NOTE 10 – TAX ABATEMENT:**

The District is required to disclose significant tax abatements as a required by GASB statement 77 (Tax abatements).

The District receives reduced property tax revenues as a result of Industrial Facilities Tax Exemptions, Brownfield Redevelopment Agreements, and Payments in Lieu of Taxes (PILOT) granted by cities, villages and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield redevelopment Agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties; PILOT programs apply to multiple unit housing for citizens of low income and the elderly. The property taxes abated for all funds by municipality under these programs are as follows:

<u>Municipality</u>	<u>Taxes Abated</u>
Custer Township	\$ 1,312
Lexington Township	49
Watertown Township	349
Wheatland Township	16
Worth Township	666
City of Brown City	218
City of Croswell	1,872
City of Sandusky	951
City of Marlette	4,955
Total	<u>\$ 10,388</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.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**

**NOTE 11 – 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.

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

	Governmental Activities
Net position as previously stated July 1, 2017	\$ (2,775,942)
Adoption of GASB Statement 75:	
Net other postemployment benefit liability	(4,379,436)
Deferred outflows	220,296
Deferred inflows	(132,359)
Net position, as restated, July 1, 2017	<u>\$ (7,067,441)</u>

**NOTE 12 – UPCOMING ACCOUNTING PRONOUNCEMENT:**

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**

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**YEAR ENDED JUNE 30, 2018**

	<b>BUDGET</b>			<b>VARIANCE WITH</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>ACTUAL</b>	<b>FINAL BUDGET</b>
REVENUE:				
Local sources				
Property taxes	\$ 315,350	\$ 315,350	\$ 316,018	\$ 668
Interest income	476	476	586	110
Other local revenues	34,325	32,109	44,695	12,586
State sources	2,443,746	2,179,473	2,165,960	(13,513)
Other		536	536	-
Transfers from other governmental units	64,963	116,176	116,459	283
<b>TOTAL REVENUE</b>	<b>2,858,860</b>	<b>2,644,120</b>	<b>2,644,254</b>	<b>134</b>
EXPENDITURES:				
Instruction	1,774	-	-	-
Supporting services:				
Instructional staff	224,556	460,453	399,444	61,009
General administration	145,474	128,596	121,080	7,516
Business administration	105,908	98,635	91,206	7,429
Operation and maintenance	51,121	192,678	183,471	9,207
Other support services	145,644	259,350	253,666	5,684
Community services	-	156,991	155,711	1,280
Transfers to other governmental units	2,145,314	1,312,954	1,351,625	(38,671)
Debt service:				
Principal repayment	33,304	33,304	33,304	-
<b>TOTAL EXPENDITURES</b>	<b>2,853,095</b>	<b>2,642,961</b>	<b>2,589,507</b>	<b>53,454</b>
EXCESS (DEFICIT) OF REVENUE OVER (UNDER) EXPENDITURES	5,765	1,159	54,747	53,588
OTHER FINANCING SOURCES (USES):				
Transfers to other funds		(500)	(562)	(62)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>(500)</b>	<b>(562)</b>	<b>(62)</b>
CHANGE IN FUND BALANCE	\$ 5,765	\$ 659	54,185	\$ 53,526
FUND BALANCE - BEGINNING			625,497	
FUND BALANCE - ENDING			\$ 679,682	

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**SPECIAL EDUCATION FUND**  
**YEAR ENDED JUNE 30, 2018**

	<b>BUDGET</b>			<b>VARIANCE WITH</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>ACTUAL</b>	<b>FINAL BUDGET</b>
REVENUE:				
Local sources				
Property taxes	\$1,135,945	\$1,135,945	\$1,138,150	\$ 2,205
Medicaid	447,367	447,367	458,380	11,013
Other local revenues	14,058	40,697	38,630	(2,067)
State sources	1,419,560	1,508,962	1,567,065	58,103
Federal sources	1,752,023	1,863,241	1,861,779	(1,462)
Other	-	15,742	15,741	(1)
Transfers from other governmental units	296,425	396,285	390,375	(5,910)
<b>TOTAL REVENUE</b>	<b>5,065,378</b>	<b>5,408,239</b>	<b>5,470,120</b>	<b>61,881</b>
EXPENDITURES:				
Instruction	1,545,479	1,803,356	1,778,778	24,578
Supporting services				
Student services	1,433,882	1,511,544	1,485,485	26,059
Instructional support	-	501,824	570,089	(68,265)
General administration	888,587	12,860	13,981	(1,121)
School administration	82,231	220,397	217,879	2,518
Business administration	-	202	201	1
Operation & maintenance	92,403	125,144	92,346	32,798
Transportation	-	583,729	611,331	(27,602)
Other support services	537,076	1,000	1,000	-
Community services	-	7,013	3,979	3,034
Transfers to other governmental units	484,054	522,319	466,003	56,316
Debt service:				
Principal repayment		-	64,301	(64,301)
Interest and fees		-	2,762	(2,762)
<b>TOTAL EXPENDITURES</b>	<b>5,063,712</b>	<b>5,289,388</b>	<b>5,308,135</b>	<b>(18,747)</b>
EXCESS (DEFICIT) OF REVENUE OVER (UNDER) EXPENDITURES	1,666	118,851	161,985	43,134
OTHER FINANCING SOURCES (USES):				
Proceeds from bus loan	-	-	97,828	97,828
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>97,828</b>	<b>97,828</b>
CHANGE IN FUND BALANCE	\$ 1,666	\$ 118,851	259,813	\$ 140,962
FUND BALANCE - BEGINNING			1,298,386	
FUND BALANCE - ENDING			<u>\$1,558,199</u>	

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**CAREER TECHNICAL PREPARATION FUND**  
**YEAR ENDED JUNE 30, 2018**

	<b>BUDGET</b>			<b>VARIANCE WITH</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>ACTUAL</b>	<b>FINAL BUDGET</b>
REVENUE:				
Local sources				
Property taxes	\$ 2,527,953	\$ 2,527,953	\$ 2,530,948	\$ 2,995
Program sales	134,738	134,738	147,395	12,657
Other local revenues	175,324	277,328	272,193	(5,135)
State sources	622,370	740,721	794,246	53,525
Federal sources	479,829	444,699	391,096	(53,603)
Other	-	14,374	14,374	-
Transfers from other governmental units	6,500	3,754	3,754	-
<b>TOTAL REVENUE</b>	<b>3,946,714</b>	<b>4,143,567</b>	<b>4,154,006</b>	<b>10,439</b>
EXPENDITURES:				
Instruction	1,963,317	2,195,562	2,175,217	20,345
Supporting services				
Student services	118,692	5,149	4,751	398
Instructional support	-	142,073	141,059	1,014
General administration	496,179	229,569	226,641	2,928
School administration	133,910	122,152	151,037	(28,885)
Business administration	57,558	106,795	103,413	3,382
Operation & maintenance	469,210	383,900	383,568	332
Other support services	60,544	191,616	184,957	6,659
Community services	-	458,550	451,270	7,280
Transfers to other governmental units	475,445	28,860	26,860	2,000
Capital outlay	-	120,000	144,235	(24,235)
<b>TOTAL EXPENDITURES</b>	<b>3,774,855</b>	<b>3,984,226</b>	<b>3,993,008</b>	<b>(8,782)</b>
EXCESS (DEFICIT) OF REVENUE OVER (UNDER) EXPENDITURES	171,859	159,341	160,998	1,657
OTHER FINANCING SOURCES (USES):				
Transfers to other funds	(117,056)	(117,056)	(117,055)	1
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(117,056)</b>	<b>(117,056)</b>	<b>(117,055)</b>	<b>1</b>
CHANGE IN FUND BALANCE	\$ 54,803	\$ 42,285	43,943	\$ 1,658
FUND BALANCE - BEGINNING			1,730,677	
FUND BALANCE - ENDING			\$ 1,774,620	

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**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)**

	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Reporting unit's proportion of net pension liability (%)	0.04699%	0.04587%	0.04514%	0.04465%
Reporting unit's proportionate share of net pension liability	\$ 12,176,381	\$ 11,444,127	\$ 11,025,254	\$ 9,834,845
Reporting unit's covered-employee payroll	\$ 3,929,640	\$ 3,866,540	\$ 3,729,254	\$ 3,812,895
Reporting unit's proportionate share of net pension liability as a percentage of it covered-employee payroll	309.86%	295.98%	295.64%	257.94%
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	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 District presents information for those years for which information is available.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,223,876	\$ 1,085,865	\$ 1,032,325	\$ 823,479
Contributions in relation to statutorily required contributions	<u>1,223,876</u>	<u>1,085,865</u>	<u>1,032,325</u>	<u>823,479</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered- employee payroll	\$ 4,063,737	\$ 3,858,598	\$ 3,694,784	\$ 3,759,096
Contributions as a percentage of covered-employee payroll	30.12%	28.14%	27.94%	21.91%

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



**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**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 THE**  
**PLAN YEAR ENDED SEPTEMBER 30)**

	<u><b>2017</b></u>
Reporting unit's proportion of net OPEB liability (%)	0.04689%
Reporting unit's proportionate share of net OPEB liability	\$ 4,151,996
Reporting unit's covered-employee payroll	\$ 3,929,640
Reporting unit's proportionate share of net OPEB liability as a percentage of it covered-employee payroll	105.66%
Plan fiduciary net position as a percentage of total OPEB liability (Non-university 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 District presents information for those years for which information is available.

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

	<b>2018</b>
Statutorily required OPEB contributions	\$ 294,988
Contributions in relation to statutorily required contributions	<u>294,988</u>
Contribution deficiency (excess)	<u>\$ -</u>
Reporting unit's covered- employee payroll (OPEB)	\$ 4,063,737
OPEB contributions as a percentage of covered-employee payroll	7.26%

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

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2018**

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

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

## **ADDITIONAL SUPPLEMENTARY INFORMATION**

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NONMAJOR GOVERNMENTAL FUND TYPES**  
**BALANCE SHEET**  
**JUNE 30, 2018**

	<b>2009 QZAB DEBT RETIREMENT</b>	<b>2005 DEBT RETIREMENT</b>	<b>FOOD SERVICE</b>	<b>TOTAL</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ -	\$ 1,150	\$ 1,150
Due from other governmental units	-	-	16	16
<b>TOTAL ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,166</b>	<b>\$ 1,166</b>
<b>LIABILITIES</b>				
Accrued liabilities	\$ -	\$ -	\$ 16	\$ 16
<b>TOTAL LIABILITIES</b>	-	-	16	16
<b>FUND BALANCES</b>				
Restricted	-	-	1,150	1,150
<b>TOTAL FUND BALANCES</b>	-	-	1,150	1,150
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,166</b>	<b>\$ 1,166</b>

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NONMAJOR GOVERNMENTAL FUND TYPES**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**YEAR ENDED JUNE 30, 2018**

	<b>2009 QZAB DEBT RETIREMENT</b>	<b>2005 DEBT RETIREMENT</b>	<b>FOOD SERVICE</b>	<b>TOTAL</b>
<b>REVENUES</b>				
Local Sources				
Food sales	\$ -	\$ -	\$ 1,750	\$ 1,750
Earnings on investments and deposits	-	-	2	2
Total Local Sources	-	-	1,752	1,752
State Sources	-	-	180	180
Federal Sources	-	-	9,147	9,147
<b>TOTAL REVENUES</b>	-	-	11,079	11,079
<b>EXPENDITURES</b>				
Food Service	-	-	10,818	10,818
Debt Retirement				
Interest on bonded debt	9,841	3,380	-	13,221
Dues and fees	-	750	-	750
Principal payment	63,084	40,000	-	103,084
<b>TOTAL EXPENDITURES</b>	72,925	44,130	10,818	127,873
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(72,925)	(44,130)	261	(116,794)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from other funds	72,925	44,130	562	117,617
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	72,925	44,130	562	117,617
<b>CHANGES IN FUND BALANCES</b>	-	-	823	823
<b>FUND BALANCES - BEGINNING</b>	-	-	327	327
<b>FUND BALANCES - ENDING</b>	\$ -	\$ -	\$ 1,150	\$ 1,150

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**SCHEDULE OF BONDED DEBT**  
**YEAR ENDED JUNE 30, 2018**

2005 GENERAL OBLIGATION SCHOOL BUILDING & SITE BONDS

\$425,000 Bond issued on March 8, 2005

<u>DUE DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>NOVEMBER INTEREST</u>	<u>MAY INTEREST</u>	<u>TOTAL</u>
2018-2019	\$ 40,000	4.25%	\$ 850	\$ 850	\$ 41,700
TOTAL	<u>\$ 40,000</u>		<u>\$ 850</u>	<u>\$ 850</u>	<u>\$ 41,700</u>

2009 QZAB SCHOOL BUILDING & SITE BONDS

\$946,262 Bond issued on October 15, 2009

<u>DUE DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>OCTOBER INTEREST</u>	<u>TOTAL</u>
2018-2019	\$ 63,084	1.95%	\$ 8,611	\$ 71,695
2019-2020	63,084	1.95%	7,381	70,465
2020-2021	63,084	1.95%	6,151	69,235
2021-2022	63,084	1.95%	4,921	68,005
2022-2023	63,084	1.95%	3,690	66,774
2023-2024	63,085	1.95%	2,460	65,545
2024-2025	<u>63,085</u>	1.95%	<u>1,230</u>	<u>64,315</u>
TOTAL	<u>\$ 441,590</u>		<u>\$ 34,444</u>	<u>\$ 476,034</u>

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**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>AWARD AMOUNT</b>	<b>(MEMO ONLY) PRIOR YEAR EXPENDITURES</b>	<b>ACCRUED (UNEARNED) REVENUE 6/30/2017</b>	<b>CURRENT YEAR RECEIPTS</b>	<b>CURRENT YEAR EXPENDITURES</b>	<b>ACCRUED (UNEARNED) REVENUE 6/30/2018</b>	<b>CURRENT YEAR CASH TRANSFERRED TO SUBRECIPIENT</b>
U.S. DEPARTMENT OF AGRICULTURE									
Passed through the Michigan Department of Education									
Child Nutrition Cluster:									
Cash Assistance:									
School Breakfast Program	10.553	181970	\$ 2,997	\$ -	\$ -	\$ 2,997	\$ 2,997	\$ -	\$ -
National School Lunch	10.555	181960	6,150		-	6,150	6,150	-	
Total Child Nutrition Cluster			9,147	-	-	9,147	9,147	-	
TOTAL U.S. DEPARTMENT OF AGRICULTURE			9,147	-	-	9,147	9,147	-	
U.S. EMPLOYMENT & TRAINING ADMINISTRATION									
Passed through Thumb Area - Michigan Works:									
MI Works Staffing Grant									
Unemployment Insurance	17.225	N/A	1,548.00		-	1,548.00	1,548.00	-	-
WIA Trade Adjustment	17.245	N/A	1,211		-	1,211	1,211	-	
Cluster:									
WIA Adult	17.258	N/A	84,537		-	84,537	84,537	-	
WIA Youth Activities	17.259	N/A	60,813		-	60,813	60,813	-	
WIA Dislocated Workers	17.278	N/A	82,414		-	82,414	82,414	-	
Total Cluster			227,764	-	-	227,764	227,764	-	
TOTAL U.S. EMPLOYMENT & TRAINING ADMINISTRATION			230,523	-	-	230,523	230,523	-	-
U.S. DEPARTMENT OF EDUCATION:									
Passed through Michigan Dept. of Education:									
Vocational Education - Basic Grants to States	84.048								
Passed through Tuscola ISD:									
CTE Perkins		183520-181211	71,567			71,567	71,567	-	
			71,567	-	-	71,567	71,567	-	
Early On Cluster:									
Special Education - Grants for Infants & Families with Disabilities	84.181								
Early On		171340-1617	89,374	78,600	8,751	8,751		-	
Early On		181340-1718	79,606			66,255	69,576	3,321	
Total Early On Cluster:			168,980	78,600	8,751	75,006	69,576	3,321	

The accompanying notes are an integral part of this schedule.



**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**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>AWARD AMOUNT</b>	<b>(MEMO ONLY) PRIOR YEAR EXPENDITURES</b>	<b>ACCRUED (UNEARNED) REVENUE 6/30/2017</b>	<b>CURRENT YEAR RECEIPTS</b>	<b>CURRENT YEAR EXPENDITURES</b>	<b>ACCRUED (UNEARNED) REVENUE 6/30/2018</b>	<b>CURRENT YEAR CASH TRANSFERRED TO SUBRECIPIENT</b>
U.S. DEPARTMENT OF EDUCATION continued:									
Passed through Michigan Dept. of Education:									
Special Education Cluster:	84.027								
Grants to State									
IDEA Flowthrough		160450-1516	\$ 1,479,821	\$ 462,571	\$ 98,769	\$ 103,576	\$ 4,807	\$ -	\$ -
IDEA Flowthrough		170450-1617	1,514,226	983,180	142,541	622,808	531,046	50,779	
IDEA Flowthrough		180450-1718	1,503,872			983,313	1,090,596	107,283	295,112
State Initiated - EOSD		180480-1112	45,000		-	45,000	45,000	-	
State Initiated - EOSD		170480-1112	45,000	45,000	3,285	3,285		-	
Transition Services		170490-TC	50,000	50,000	4,084	4,084		-	
Transition Services		180490-TC	50,000	-	-	50,000	50,000	-	957
			<u>4,687,919</u>	<u>1,540,751</u>	<u>248,679</u>	<u>1,812,066</u>	<u>1,721,449</u>	<u>158,062</u>	<u>296,069</u>
Preschool Grants	84.173								
Preschool Incentive		170460-1617	48,859	48,859	10,675	10,675		-	
Preschool Incentive		180460-1718	48,679	-		42,100	48,679	6,579	
			<u>97,538</u>	<u>48,859</u>	<u>10,675</u>	<u>52,775</u>	<u>48,679</u>	<u>6,579</u>	
Total Special Education Cluster			<u>4,785,457</u>	<u>1,589,610</u>	<u>259,354</u>	<u>1,864,841</u>	<u>1,770,128</u>	<u>164,641</u>	<u>296,069</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>5,026,004</u>	<u>1,668,210</u>	<u>268,105</u>	<u>2,011,414</u>	<u>1,911,271</u>	<u>167,962</u>	<u>296,069</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES									
Passed through Thumb Area - Michigan Works									
Temporary Assistance for Needy Families	93.558	N/A	<u>89,006</u>		-	89,006	89,006	-	
Passed through Michigan Department of Community Health	93.778								
Medicaid Administrative Outreach		N/A	<u>22,075</u>		-	14,810	22,075	7,265	
			<u>22,075</u>	-	-	14,810	22,075	7,265	
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>111,081</u>	-	-	<u>103,816</u>	<u>111,081</u>	<u>7,265</u>	-
TOTAL FEDERAL AWARDS			<u>\$ 5,376,755</u>	<u>\$ 1,668,210</u>	<u>\$ 268,105</u>	<u>\$ 2,354,900</u>	<u>\$ 2,262,022</u>	<u>\$ 175,227</u>	<u>\$ 296,069</u>

The accompanying notes are an integral part of this schedule.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**PASS-THROUGH AMOUNTS**  
**YEAR ENDED JUNE 30, 2018**

	<b>FEDERAL CFDA NUMBER</b>	<b>STATE PASS- THROUGH NUMBER</b>	<b>SUBRECIPIENT AWARD AMOUNT</b>	<b>DUE TO (FROM) SUBRECIPIENT 6/30/2017</b>	<b>SUBRECIPIENT CURRENT YEAR EXPENDITURES</b>	<b>SUBRECIPIENT CURRENT YEAR CASH TRANSFERRED</b>	<b>DUE TO (FROM) SUBRECIPIENT 6/30/2018</b>
PASS-THROUGH GRANTEE TRANSITION	84.027	180490-TC					
Brown City			\$ 180	\$ -	\$ 180	\$ 180	\$ -
CPS			269	-	269	269	-
Deckerville			203	-	203	203	-
Marlette			305	-	305	305	-
Total			<u>957</u>	<u>-</u>	<u>957</u>	<u>957</u>	<u>-</u>
SPECIAL EDUCATION - IDEA	84.027	1804501718					
Brown City			48,400	-	48,400	48,400	-
CPS			23,600	-	23,600	-	23,600
Croswell - Lexington			110,400	-	110,400	96,312	14,088
Deckerville			39,200	-	39,200	39,200	-
Marlette			46,000	-	46,000	46,000	-
Peck			19,600	-	19,600	19,600	-
Sandusky			45,600	-	45,600	45,600	-
Total			<u>332,800</u>	<u>-</u>	<u>332,800</u>	<u>295,112</u>	<u>37,688</u>
Total federal funds passed through to subrecipients			<u>\$ 333,757</u>	<u>\$ -</u>	<u>\$ 333,757</u>	<u>\$ 296,069</u>	<u>\$ 37,688</u>

The accompanying notes are an integral part of this schedule.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2018**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Sanilac Intermediate School District under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations 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 Sanilac Intermediate School District, it is not intended to and does not present the financial position or changes in net position of Sanilac Intermediate School District.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE 3 - RECONCILIATION WITH AUDITED FINANCIAL STATEMENTS**

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

Special education fund	\$1,861,779
Career technical prep fund	391,096
Other nonmajor governmental fund	<u>9,147</u>
Expenditures per schedule of expenditures of federal awards	<u>\$ 2,262,022</u>

**NOTE 4 - SUBRECIPIENTS**

Of the federal expenditures presented in the schedule of expenditures of federal awards, Sanilac Intermediate School District provided federal awards to subrecipients reported in the enclosed schedule of pass-through amounts.



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

Certified Public Accountants

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Valerie J. Hartel, CPA  
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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education  
Sanilac Intermediate School District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sanilac Intermediate School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Sanilac Intermediate School District's basic financial statements and have issued our report thereon dated October 12, 2018.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control over financial reporting, identified as item 2018-001 described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting.

**COMPLIANCE AND OTHER MATTERS**

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

**SANILAC INTERMEDIATE SCHOOL DISTRICT'S RESPONSE TO FINDINGS**

Sanilac Intermediate School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Sanilac Intermediate School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**PURPOSE OF THIS REPORT**

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



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

October 12, 2018



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

Certified Public Accountants

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

To the Board of Education  
Sanilac Intermediate School District

### **REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

We have audited Sanilac Intermediate School District'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 Sanilac Intermediate School District's major federal programs for the year ended June 30, 2018. Sanilac Intermediate School District'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, contracts, 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 Sanilac Intermediate School District'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 (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sanilac Intermediate School District'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 unmodified opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Sanilac Intermediate School District's compliance.

### **OPINION ON EACH MAJOR FEDERAL PROGRAM**

In our opinion, Sanilac Intermediate School District 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 Sanilac Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with the requirements referred to above. In planning and performing our audit of compliance, we considered Sanilac Intermediate School District'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 our 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 Sanilac Intermediate School District'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.

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

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

October 12, 2018

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2018**

**Section I – Summary of Auditor's Results**

***Financial Statements***

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

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

***Federal Awards***

Internal control over major programs:

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

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

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

Identification of major programs:

**CFDA Number(s)**  
84.027 & 84.173

**Name of Federal Program or Cluster**  
Special Education Cluster

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

Auditee qualified as low-risk auditee? ☒ Yes ☐ No



**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2018**

**Section II – Financial Statement Findings**

**Finding 2018-001 Significant Deficiency**

Criteria:

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

Condition:

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

Context:

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

Effect:

As a result of this condition, the government is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented, or detected and corrected by management on a timely basis. Other staff members and/or board members must be utilized in order to achieve good internal controls.

Cause:

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

Recommendation:

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

**Section III – Federal Award Findings and Questioned Costs**

None

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED JUNE 30, 2018**

The following were the audit findings for the two prior years:

**Finding 2017-001 and 2016-001 Significant Deficiency**

Condition:

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

Recommendation:

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

Current Status:

The District continues to segregate duties whenever possible among their existing staff. In addition, the school treasurer reviews all checks written and accounts for numerical sequence of all checks. This is expected to continue each year as part of a cost-benefit decision.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**CORRECTIVE ACTION PLAN**  
**JUNE 30, 2018**  
**CONTACT PERSON: GAIL DENTON**  
**OVERSIGHT AGENCY: U.S. DEPARTMENT OF EDUCATION**

Sanilac Intermediate School District respectfully submits the following corrective action plan for the year ended June 30, 2018.

**Auditor:** Anderson, Tuckey, Bernhardt & Doran, PC  
715 E Frank St  
Caro, MI 48723

**Audit Period:** Year ended June 30, 2018

The findings from the June 30, 2018 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the number assigned in the schedule.

**Finding – Financial statement audit**

**Significant deficiency 2018-001**

**Recommendation:** We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standards #115.

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



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

Certified Public Accountants

Thomas B. Doran, CPA  
Valerie J. Hartel, CPA  
Jamie L. Peasley, CPA  
.....  
Gary R. Anderson, CPA  
Jerry J. Bernhardt, CPA

Terry L. Haske, CPA  
Timothy D. Franzel  
Laura J. Steffen, CPA  
Angela M. Burnette, CPA  
David A. Ondrajka, CPA  
John M. Bungart, CPA

October 12, 2018

To the Board of Education  
***Sanilac Intermediate School District***

We have audited the financial statements of ***Sanilac Intermediate School District*** for the year ended ***June 30, 2018*** and have issued our report thereon dated October 12, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards, *Government Auditing Standards*, and OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)  
As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

As part of obtaining reasonable assurance about whether ***Sanilac Intermediate School District's*** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with the Uniform Guidance, we examined, on a test basis, evidence about ***Sanilac Intermediate School District's*** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on ***Sanilac Intermediate School District's*** compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on ***Sanilac Intermediate School District's*** compliance with those requirements.

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

## Planned Scope and Timing of the Audit

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

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

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

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

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

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

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

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

### *Difficulties Encountered in Performing the Audit*

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

### *Corrected and Uncorrected Misstatements*

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

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 12, 2018.

### *Management Consultations with Other Independent Accountants*

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

### *Other Audit Findings or Issues*

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

### Other Matters

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

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

A separate management letter was not issued.

### Restriction on Use

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

Very truly yours,



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

October 12, 2018