

AKRON-FAIRGROVE SCHOOLS
FAIRGROVE, 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

Board of Education
Akron-Fairgrove Schools
Fairgrove, Michigan 48733

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter – Change in Accounting Principle

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as listed 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 Akron-Fairgrove Schools' basic financial statements. The additional supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basis financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the 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 8, 2018, on our consideration of Akron-Fairgrove Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Akron-Fairgrove School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Akron-Fairgrove Schools' internal control over financial reporting and compliance.

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

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

October 8, 2018

AKRON-FAIRGROVE SCHOOLS

Management's Discussion and Analysis

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

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

Using this Annual Report

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district's budget for the year.

Financial Section

- Basic Financial Statements
 - District-wide Financial Statements
 - Fund Financial Statements
 - Fiduciary Fund
 - Notes to Financial Statements
- Required Supplementary Information
 - Budgetary Comparison Schedules
 - Schedule of the Proportionate Share of the Net Pension Liability
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 - Schedule of the Proportionate Share of the Net OPEB Liability
 - Schedule of the Reporting Unit's OPEB Contribution
 - Notes to the Required Supplementary Information
- Additional Supplementary Information

Reporting the School District as a Whole – District-wide Financial Statements

One of the most frequent and important questions asked about our School District is, "As a whole, what is the School District's financial condition as a result of this year's activities?" The first two statements in the School District's financial statements are the Statement of net position and the Statement of activities. These two statements report information on the School District as a whole because they 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.

AKRON-FAIRGROVE SCHOOLS

Management's Discussion and Analysis

These two statements report the Akron-Fairgrove School District's net position – the difference between assets and liabilities, as reported in the statement of net position – as one way to measure the School District's financial health or financial position. Over time, increases or decreases 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 School District's operating results come from the relationship between the revenues and expenses. Our School District's goal is not to generate profits, as do commercial entities, but is to provide services to our students. To assess the overall health of the School District, there are many non-financial factors such as the quality of education provided, along with the safety of our schools.

In the District-wide statements, the district's activities are classified as *governmental activities*. The District's activities include regular and special education, support services, community services, transportation, food service, and athletics. Property taxes, State aid, State and Federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – Fund Financial Statements

The fund financial statements do not report the School District as a whole; instead the fund financial statements provide detailed information about the District's most significant funds. The School District establishes funds that comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." The General Fund and Debt Service Funds are the District's major funds, which includes the instructional student and instructional support activities. There are additional funds that the School District also establishes to help it control and manage money for particular purposes, such as the Food Services Funds, Capital Projects Fund, and Student Activities Funds. Funds need to be established to show that it's meeting legal responsibilities for certain taxes, grants. 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 that are available for spending. They are reported using the modified accrual method of 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 to determine whether there are more or less financial resources that can be spent in the near future to finance the School District's programs.

In the fund financial statements, capital asset purchases are reported as expenditures in the year of acquisition. No asset is 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.

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

The School District acts as the trustee for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary assets and liabilities. These activities are excluded 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.

AKRON-FAIRGROVE SCHOOLS

Management's Discussion and Analysis

Financial Analysis of the School District as a Whole

The statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position as of June 30, 2017 and June 30, 2018.

Condensed Statement of Net Position	Governmental Activities	
	2017	2018
Assets		
Current assets	\$ 2,424,109	\$ 1,924,390
Noncurrent assets	6,879,232	7,193,186
Total assets	9,303,341	9,117,576
Deferred Outflows of Resources		
Deferred charge on refunding	10,186	8,886
Related to other postemployment benefits	-	94,464
Related to pensions	591,449	1,052,907
Total Deferred Outflows of Resources	601,635	1,156,257
Liabilities		
Current liabilities	943,799	1,011,113
Noncurrent liabilities	4,857,062	3,795,346
Net other postemployment benefits liability	-	1,391,596
Net pension liability	3,796,811	4,085,610
Total liabilities	9,597,672	10,283,665
Deferred Inflows of Resources		
Related to pensions	142,324	227,663
Related to other postemployment benefits	-	47,046
Related to state aid funding for pension & OPEB	-	195,326
Total Deferred Inflows of Resources	142,324	470,035
Net position		
Net investment in capital assets	2,658,813	3,444,649
Restricted:		
Debt Service	682,560	711,479
Food Service	-	-
Unrestricted	(3,176,393)	(4,635,995)
Total net position	164,980	(479,867)
Total Net Position and Liabilities	\$ 9,762,652	\$ 9,803,798

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

AKRON-FAIRGROVE SCHOOLS

Management's Discussion and Analysis

The statement of activities shows the results of this year's operations for Akron-Fairgrove District Schools as a whole. Table 2 shows the changes in net position of the School District as of June 30, 2017 and June 30, 2018.

Table 2
Statement of Net Position from Operating Results

	Governmental Activities	
	2017	2018
Revenues		
Program revenues:		
Charges for services	\$ 9,918	\$ 10,706
Operating grants & Other Transactions	1,018,705	1,625,100
General revenues:		
Property taxes	1,876,968	1,384,115
State sources	1,204,806	1,344,692
Other	74,399	56,404
Total revenues	4,184,796	4,421,017
Expenses		
Instruction	1,729,515	1,922,416
Support services	1,101,498	1,165,297
Community services	5,879	6,274
Food Services	185,282	203,462
Facilities improvement	33,074	116
Interest on long-term debt	81,853	76,939
Unallocated depreciation	294,935	291,416
Total Expenses	3,432,036	3,665,920
Increase (Decrease) in Net Position	\$ 752,760	\$ 755,097

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

AKRON-FAIRGROVE SCHOOLS

Management's Discussion and Analysis

Financial analysis of the School District's Funds

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

Table 2 shows the breakdown of the sources of revenue for the District. A substantial portion (29%) of the District's revenues is received from State sources, which means that the financial stability of the District rests primarily with the economic health of the State of Michigan.

Table 2 shows that 90% of the District's resources are spent on instruction services, support services, community services, and food services. Another 3% is spent on interest and 8% is spent for depreciation and amortization.

The financial performance of the district as a whole is reflected in its governmental funds. As the School District completed the 2017/2018 school year, the governmental funds reported a combined fund balance of \$923,621.

Factors On Fund Balance

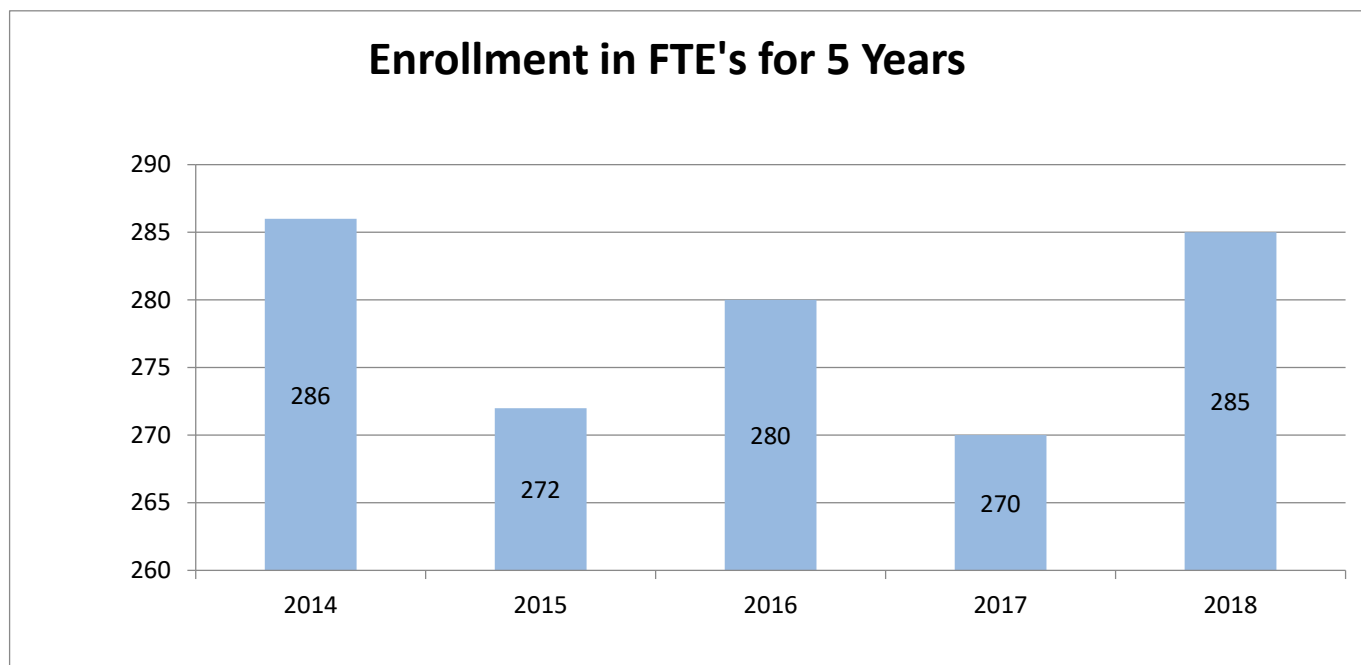
- ◆ *General Fund Balance* – Increased \$12,482 during the year leaving an ending fund balance of \$170,279 at June 30, 2018.
- ◆ *The Food Service Fund Balance*- Decreased by \$11,561 during the year leaving an ending fund balance of \$23,775.
- ◆ *The Debt Service Fund Balance*- Increased by \$30,597 overall.
- ◆ *Capital Projects Fund Balance* – Decreased \$107.

Factors Decreasing Fund Balance

- ◆ *Student Enrollment*
The chart on the next page shows a general decline in enrollment for most of the past 5 years. There was an increase of 15 general education students between 2017 and 2018 with state aid at \$7,631 per student this is an increase in revenue of \$114,465.

AKRON-FAIRGROVE SCHOOLS

Management's Discussion and Analysis



General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. Over the course of the year, the School District revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. The final amendment to the budget was actually adopted just before the year-end, along with the new adopted budget for the upcoming school year.

Budget Amendment 17/18

The increase in revenue this year between the beginning budget and the final amended budget totaled \$347,679, primarily due to an increase in State revenue for the portion of the Balanced Calendar grant received in 2017-2018.

The expenditures increased by \$410,655 between the beginning budget and the final amended budget. The major areas of increase were in Facilities improvement due to a State grant received for transitioning to a Balanced Calendar and in instruction due to a negotiated increase in wages due to pupil enrollment.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2018, the School District had \$10,734,921 invested in a broad range of capital assets.

The District's capital assets at year-end are outlined in Table 3.

AKRON-FAIRGROVE SCHOOLS

Management's Discussion and Analysis

Table 3

	Governmental Activities	
	2017	2018
Construction in progress	\$ 109,436	\$ -
Buildings	8,427,032	9,207,527
Buses	375,651	375,651
General Equipment	218,396	218,396
Playground, Athletic, Site Improvement	672,337	695,337
Technology	348,010	238,010
Total	\$ 10,150,862	\$ 10,734,921

The District's net capital assets show an increase of \$314,643 from 2017, as a result of the Balanced Calendar Air Conditioning project, less depreciation. Depreciation is taken on the assets using the straight-line method of depreciation.

Debt Administration

As of June 30, 2018 the District had debt on the financial statements for the 2015 Refunding Bonds in the amount of \$2,215,000. These bonds continue to mature through May 1, 2025.

As of June 30, 2018 the District had debt on the financial statements for the 2014 Bonds in the amount of \$900,000. These bonds continue to mature through May 2024.

As of June 30, 2018 the District had debt on the financial statements for the 2005 QZAB Bond in the amount of \$625,000. This bond will mature in 2020.

As of June 30, 2018 the District had compensated absences, which include accumulated sick and vacation pay, totaling \$55,346.

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

Factors bearing on the District's future

Annual foundation adjustments, MPSERS increases, and health insurance increases will all factor into the District's ability to maintain financial stability.

Student counts are vital to the funding of the district.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, parents, students and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Central Office, Akron-Fairgrove District Schools, 2800 N. Thomas Road, Fairgrove, Michigan, 48733, and telephone number (989) 693-6163.

BASIC FINANCIAL STATEMENTS

AKRON-FAIRGROVE SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2018

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and cash equivalents	\$ 988,188
Investments	435,490
Receivables:	
Intergovernmental receivable	449,607
Due from agency funds	3,706
Inventory	2,836
Prepaid expenses	44,214
Restricted cash - capital projects	151
Restricted investments - capital projects	198
Capital assets, net of accumulated depreciation	<u>7,193,186</u>
TOTAL ASSETS	<u>9,117,576</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding, net of amortization	8,886
Related to other postemployment benefits	94,464
Related to pensions	<u>1,052,907</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,156,257</u>
LIABILITIES	
Accounts payable	64,023
Accrued salaries and related items	218,337
Accrued retirement	76,014
Accrued interest	17,739
Note payable	635,000
Noncurrent liabilities:	
Due within one year	450,000
Due in more than one year	3,290,000
Compensated absences	55,346
Net other postemployment benefits liability	1,391,596
Net pension liability	<u>4,085,610</u>
TOTAL LIABILITIES	<u>10,283,665</u>
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	227,663
Related to other postemployment benefits	47,046
Related to state aid funding for pension and other postemployment benefits	<u>195,326</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>470,035</u>
NET POSITION	
Net investment in capital assets	3,444,649
Restricted for debt service	711,479
Unrestricted	<u>(4,635,995)</u>
TOTAL NET POSITION	<u>\$ (479,867)</u>

See notes to financial statements.

AKRON FAIRGROVE SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
Governmental activities:				
Instruction	\$ 1,922,416		\$ 857,002	\$ (1,065,414)
Support services	1,165,297	\$ 9,494	571,335	(584,468)
Community services	6,274			(6,274)
Food services	203,462	1,212	196,763	(5,487)
Facilities improvement	116			(116)
Interest and fees on long-term debt	76,939			(76,939)
Unallocated depreciation	291,416			(291,416)
Total governmental activities	<u>\$ 3,665,920</u>	<u>\$ 10,706</u>	<u>\$ 1,625,100</u>	<u>(2,030,114)</u>
General revenues:				
Property taxes, levied for general purposes				861,658
Property taxes, levied for debt service				522,457
State sources - unrestricted				1,344,692
Investment earnings				18,635
Transfers from other districts				30,350
Gain (loss) on sale of assets				(32,000)
Other				39,419
Total general revenue				<u>2,785,211</u>
Change in net position				755,097
Net position, beginning of year, as restated				<u>(1,234,964)</u>
Net position, end of year				<u>\$ (479,867)</u>

See notes to financial statements.

AKRON-FAIRGROVE SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	GENERAL FUND	DEBT SERVICE	TOTAL NONMAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>				
Cash and cash equivalents	\$ 238,731	\$ 709,476	\$ 39,981	\$ 988,188
Investments	435,490			435,490
Receivables:				
Intergovernmental receivable	449,607			449,607
Due from agency funds	3,706			3,706
Due from other funds	12,973	35,018	1,079	49,070
Inventory			2,836	2,836
Prepaid expenditures	44,214			44,214
Restricted:				
Cash			151	151
Investments			198	198
TOTAL ASSETS	\$ 1,184,721	\$ 744,494	\$ 44,245	\$ 1,973,460
 <u>LIABILITIES & FUND BALANCES</u>				
LIABILITIES:				
Accounts payable	\$ 45,997	\$ 15,276	\$ 2,750	\$ 64,023
Due to other funds	36,097	-	12,973	49,070
Accrued salaries and related items	215,656		2,681	218,337
Accrued retirement	74,297		1,717	76,014
Accrued interest	7,395			7,395
Note payable	635,000			635,000
TOTAL LIABILITIES	1,014,442	15,276	20,121	1,049,839
FUND BALANCES:				
Nonspendable:				
Inventory			2,836	2,836
Prepaid expenditures	44,214			44,214
Restricted for:				
Debt service		729,218		729,218
Capital projects			349	349
Food service			14,976	14,976
Assigned for:				
Subsequent year expenditures			5,963	5,963
Unassigned	126,065			126,065
TOTAL FUND BALANCES	170,279	729,218	24,124	923,621
TOTAL LIABILITIES & FUND BALANCES	\$ 1,184,721	\$ 744,494	\$ 44,245	\$ 1,973,460

See notes to financial statements.

AKRON-FAIRGROVE SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total Fund Balances - Governmental Funds \$ 923,621

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

Deferred outflows of resources-changes on refunding, net of amortization	8,886
Deferred outflows of resources-related to pensions	1,052,907
Deferred outflows of resources-related to other postemployment benefits	94,464
Deferred inflows of resources-related to pensions	(227,663)
Deferred inflows of resources-related to other postemployment benefits	(47,046)
Deferred inflows of resources-related to state pension and other postemployment benefits funding	(195,326)

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

The cost of the capital assets is:	10,734,921
Accumulated depreciation is:	(3,541,735)

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

Bonds payable	(3,740,000)
Compensated absences	(55,346)
Accrued interest is not included as a liability in governmental funds; it is recorded when paid	(10,344)
Net other postemployment benefits liability	(1,391,596)
Net pension liability	(4,085,610)

Net Position of Governmental Activities \$ (479,867)

AKRON-FAIRGROVE SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUNDS</u>	<u>TOTAL NONMAJOR FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES				
Local sources				
Taxes	\$ 861,658	\$ 522,457	\$ -	\$ 1,384,115
Charges for services	9,494		1,212	10,706
Other	45,342	12,649	63	58,054
State sources	2,578,357	-	6,845	2,585,202
Federal sources	222,580		196,763	419,343
Transfers from other districts	30,350			30,350
TOTAL REVENUES	<u>3,747,781</u>	<u>535,106</u>	<u>204,883</u>	<u>4,487,770</u>
EXPENDITURES				
Instruction	1,904,376			1,904,376
Supporting services	1,206,666			1,206,666
Community services	6,274			6,274
Food services			203,462	203,462
Facilities improvement	644,959		116	645,075
Debt service:				
Principal redemption		470,000		470,000
Interest and fiscal charges	8,348	68,158		76,506
TOTAL EXPENDITURES	<u>3,770,623</u>	<u>538,158</u>	<u>203,578</u>	<u>4,512,359</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(22,842)</u>	<u>(3,052)</u>	<u>1,305</u>	<u>(24,589)</u>
OTHER FINANCING SOURCES (USES)				
Sale of assets	56,000			56,000
Transfers in	12,973	33,649	-	46,622
Transfers out	(33,649)		(12,973)	(46,622)
TOTAL OTHER FINANCING SOURCES (USES)	<u>35,324</u>	<u>33,649</u>	<u>(12,973)</u>	<u>56,000</u>
NET CHANGE IN FUND BALANCES	<u>12,482</u>	<u>30,597</u>	<u>(11,668)</u>	<u>31,411</u>
FUND BALANCES - BEGINNING OF YEAR	<u>157,797</u>	<u>698,621</u>	<u>35,792</u>	<u>892,210</u>
FUND BALANCES - END OF YEAR	<u>\$ 170,279</u>	<u>\$ 729,218</u>	<u>\$ 24,124</u>	<u>\$ 923,621</u>

See notes to financial statements.

AKRON-FAIRGROVE SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Total net changes in fund balances--governmental funds \$ 31,411

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	(291,416)
Capital outlay	694,059
Net book value of assets disposed of	(88,000)

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	11,211
Accrued interest payable at the end of the year	(10,344)

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

Principal payments	470,000
Amortization of deferred amount on bond refunding	(1,300)

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 compensated absences at the beginning of the year	47,062
Accrued compensated absences at the end of the year	(55,346)

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

Other postemployment benefit related items	12,219
Pension related items	(29,706)

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

State aid funding for pension and other postemployment benefit	(34,753)
--	----------

Change in net position of governmental activities **\$ 755,097**

See notes to financial statements.

AKRON-FAIRGROVE SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2018

	<u>AGENCY FUNDS</u>
ASSETS	
Cash and cash equivalents	\$ 36,555
<i>TOTAL ASSETS</i>	<u><u>\$ 36,555</u></u>
LIABILITIES	
Due to general fund	\$ 3,706
Due to student organizations	32,849
<i>TOTAL LIABILITIES</i>	<u><u>\$ 36,555</u></u>

See notes to financial statements.

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

DESCRIPTION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS:

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

REPORTING ENTITY:

Akron-Fairgrove Schools (the "District") is governed by the Akron-Fairgrove Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by 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 Statement.

BASIS OF PRESENTATION – GOVERNMENT-WIDE FINANCIAL STATEMENTS:

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the 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 *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

OTHER NON-MAJOR FUNDS:

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

The *2014 capital projects* fund accounts for the receipt of debt proceeds and the acquisition of capital assets or construction of major capital projects.

The 2014 Capital Projects Fund includes capital projects activities funded with bonds issued after May 1, 1994. For this capital project, the school district has complied with the applicable provisions of section 1351a of the Revised School Code.

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2018

Beginning with the year of bond issuance, the District has reported annual construction activity in the 2014 capital projects fund. The project for which the 2014 School Building and Site Bonds were issued was considered substantially complete on June 30, 2016 and the cumulative revenues and expenditures are as follows.

The following is a summary of the revenue and expenditures for the capital projects bond activity since inception:

2014 Capital Projects Fund

Revenue and other financing sources	\$ 3,100,793
Expenditures and other financing uses	\$ 3,100,444

Revenue and other financing sources include the net bond proceeds of \$3,100,000.

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

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

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

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 of 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.

AKRON-FAIRGROVE SCHOOLS
Notes to Financial Statements
Year Ended June 30, 2018

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

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

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

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

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

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

BUDGETARY INFORMATION:

Budgetary basis of accounting:

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

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

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

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

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2018

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

1. Cash and cash equivalents

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

2. Investments

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

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 \$2,500 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	50 years
General Equipment	5 – 20 years
Buses	8 years
Technology	5 - 20 years
Playground, Athletic & Site Improvement	5 - 20 years

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2018

5. Defined benefit plans

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 outflow:

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

Deferred inflow:

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category. The first is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension and other postemployment benefit contributions subsequent to the measurement period. The 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 difference 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).

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2018

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.

REVENUES AND EXPENDITURES/EXPENSES:

1. Program revenues

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

2. Property taxes

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

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

<u>FUND</u>	<u>MILLS</u>
General Fund:	
Non-Principle Residence Exemption (PRE)	18.00
Commercial Personal Property	6.00
Debt Service Fund:	
PRE, Non-PRE, Commercial Personal Property	1.70

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.

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2018

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.

NOTE 2 – DEPOSITS AND INVESTMENTS:

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

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
MILAF - MAX Class	\$ 37,805	0.0027	AAAm	8.7%
MILAF - Cash Management Class	397,883	0.0027	AAAm	91.3%
Total fair value	<u>\$ 435,688</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

MILAF funds (CMC and MAX class) are considered external investment pools as defined by the GASB and as such are recorded at amortized cost, which approximates fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not required for fair value disclosures.

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

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

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

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2018, \$734,984 of the District's bank balance of \$1,025,366 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying value on the books for deposits at the end of the year was \$1,024,894.

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

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

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2018

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 and 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.

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

The above amounts as previously reported in Note 2:

Deposits - including fiduciary funds of \$36,555	\$ 1,024,894
Investments	435,688
	<u>\$ 1,460,582</u>

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

Cash - District Wide	\$ 988,188
Cash - Fiduciary Funds	36,555
Investments - District Wide	435,490
Restricted Cash - Capital Projects	151
Restricted Investments - Capital Projects	198
	<u>\$ 1,460,582</u>

NOTE 3 – INTERGOVERNMENTAL RECEIVABLES:

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

Governmental Units:	
State Aid	\$ 323,742
Federal	50,074
Other	75,791
Total	<u>\$ 449,607</u>

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

Because of the District's favorable collection experience, no allowance for doubtful accounts has been recorded.

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2018

NOTE 4 – NOTE PAYABLE:

At June 30, 2018, the District has issued a state aid anticipation note payable of \$635,000. The note has an interest rate of 1.38% and matured August 20, 2018. Proceeds of the note were used to fund school operations. The note is secured by the full faith and credit of the District as well as pledged state aid. Activity for the year ended June 30, 2018 is as follows:

Balance June 30, 2017	Additions	Payments	Balance June 30, 2018
\$ 600,000	\$ 635,000	\$ 600,000	\$ 635,000

NOTE 5 – LONG-TERM DEBT:

The District issues general obligation bonds to provide funds for the acquisitions, construction, and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the district.

The following is a summary of the general obligation bonds of the school district for the year ended June 30, 2018:

	General obligation bonds	Compensated absences	Total
Beginning balance 6/30/17	\$ 4,210,000	\$ 47,062	\$ 4,257,062
Additions		8,284	8,284
Deletions	(470,000)	-	(470,000)
Ending balance 6/30/18	3,740,000	55,346	3,795,346
Due within one year	(450,000)		(450,000)
Due in more than one year	\$ 3,290,000	\$ 55,346	\$ 3,345,346

Interest expense (all funds) for the year ended June 30, 2018 was \$76,506.

As of June 30, 2018, the school district had the following outstanding bonds payable:

2005 QZAB Bond -To be paid in 15 equal annual installments of \$33,649. The annual payments will be deposited with Chemical Bank and Trust Company and will earn interest at the rate of 2.96% per annum. The accumulated amounts will be used to pay off the QZAB bond in 2020. This bond is interest free.	\$ 625,000
2014 School Building and Site Bonds due in annual payments ranging from \$950,000 to \$150,000 from May 1, 2016 to May 1, 2024, with interest from 0.65% to 2.55%.	900,000
2015 Refunding Bonds due in annual payments ranging from \$235,000 to \$370,000 from May 1, 2017 to May 1, 2025, with interest from 1.00% to 2.55%.	2,215,000
Total general obligation debt	3,740,000
Obligation under contract for compensated absences	55,346
Total general long-term debt	\$ 3,795,346

The District has defeased certain obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account, assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2018, \$2,350,000 of bonds outstanding are considered defeased.

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements Year Ended June 30, 2018

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

<u>YEAR ENDED JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2019	\$ 450,000	\$ 62,062	\$ 512,062
2020	1,075,000	56,062	1,131,062
2021	450,000	48,862	498,862
2022	455,000	40,612	495,612
2023	465,000	31,442	496,442
2024-2025	845,000	30,498	875,498
	<u>3,740,000</u>	<u>269,538</u>	<u>4,009,538</u>
Accumulated compensated absences	55,346	-	55,346
TOTALS	<u>\$ 3,795,346</u>	<u>\$ 269,538</u>	<u>\$ 4,064,884</u>

A fund balance amount of \$729,218 is available in the debt service fund to service the general obligation debt.

NOTE 6 – RETIREMENT AND POST RETIREMENT BENEFITS:

Plan Description - The Michigan Public School Employees' Retirement System (MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://www.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 the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public Schools Employee's Retirement Act.

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

Benefits Provided - Overall

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

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

Benefits Provided - Pension

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

AKRON-FAIRGROVE SCHOOLS

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Year Ended June 30, 2018

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

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

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

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

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

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

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

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Notes to Financial Statements

Year Ended June 30, 2018

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

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

Pension Reform of 2017

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

Benefits Provided – Other postemployment benefit (OPEB)

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

Retiree Healthcare Reform of 2012

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

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stopped 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 60th birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

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

Member Contributions

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

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2018

Employer Contributions

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

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

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

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

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

The District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately \$437,000, with \$433,000 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 \$113,000, with \$107,000 specifically for the Defined Benefit Plan.

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

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

Pension Liabilities

At June 30, 2018, the District reported a liability of \$4,085,610 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the District's proportion was .01577 and .01522 percent.

<u>MPERS (Plan) Non-university employers:</u>	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Total Pension Liability	\$ 72,407,218,688	\$ 67,917,445,078
Plan Fiduciary Net Position	\$ 46,492,967,573	\$ 42,968,263,308
Net Pension Liability	\$ 25,914,251,115	\$ 24,949,181,770
Proportionate Share	0.01577	0.01522
Net Pension Liability for the District	\$ 4,085,610	\$ 3,796,811

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

For the year ended June 30, 2018, the District recognized pension expense of \$478,174.

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements Year Ended June 30, 2018

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

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Changes of assumptions	\$ 447,611	
Net difference between projected and actual earnings on pension plan investments		(195,319)
Differences between expected and actual experience	35,507	\$ (20,047)
Changes in proportion and differences between employer contributions and proportionate share of contributions	156,915	(12,297)
District's contributions subsequent to the measurement date	412,874	
Total	\$ 1,052,907	\$ (227,663)

\$412,874 reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

Year ended September 30,	Amount
2018	\$ 129,125
2019	188,785
2020	88,032
2021	6,428

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 \$1,391,596 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 0.01571 percent.

<i>MPERS (Plan) Non-university employers:</i>	September 30, 2017
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	0.01571
Net Other Postemployment Benefit Liability for the District	\$ 1,391,596

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 \$93,117.

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2018

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

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Net difference between projected and actual earnings on OPEB plan investments		\$ (32,230)
Differences between expected and actual experience		(14,816)
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 166	
District's contributions subsequent to the measurement date	94,298	
Total	\$ 94,464	\$ (47,046)

\$94,298, 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:

Year ended September 30,	Amount
2018	\$ (11,332)
2019	(11,332)
2020	(11,332)
2021	(11,332)
2022	(1,552)

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 projections scale BB (for men, 80% of the tables rates were used and for women, 70% of the table rates were used)

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

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

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2018

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.

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

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

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

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

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

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2018

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

	Pension		
	1% Decrease (6.0% - 6.5%)	Discount rate (7.0% - 7.5%)	1% Increase (8.0% - 8.5%)
District's proportionate share of the net pension liability	\$ 5,322,191	\$ 4,085,610	\$ 3,044,487

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

	Other Postemployment Benefits		
	1% Decrease (6.5%)	Discount rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net other postemployment benefits liability	\$ 1,629,961	\$ 1,391,596	\$ 1,189,298

Sensitivity to the net OPEB liability to changes in the healthcare cost trend rates – The following presents the District'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 District'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 Benefits		
	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%)
District's proportionate share of the net other postemployment benefits liability	\$ 1,178,494	\$ 1,391,596	\$ 1,633,557

Pension and OPEB Plan Fiduciary Net Position

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

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

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2018

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.

NOTE 7 - 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. This program is recorded in the general fund.

The District continues to carry commercial insurance for the other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

NOTE 8 – INTERFUND RECEIVABLES AND PAYABLES:

The following interfund balances were outstanding at June 30, 2018:

Receivable Fund		Payable Fund	
General Fund	\$ 12,973	General Fund	\$ 36,097
Nonmajor Fund	1,079	Nonmajor Fund	12,973
Debt Service	35,018	Debt Service	
	<u>\$ 49,070</u>		<u>\$ 49,070</u>

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

NOTE 9 – TRANSFERS:

The general fund transferred \$33,649 to the QZAB debt retirement fund during the current fiscal year for note repayment set aside requirements. The food service fund transferred \$12,973 to the general fund. This transfer was made to cover indirect costs paid by the general fund that relate to the food service activities.

NOTE 10 – QZAB FUND:

On June 28, 2005 the District borrowed \$625,000 through the Qualified Zone Academy Bond Program for the purpose of remodeling, equipping, re-equipping, furnishing and re-furnishing school buildings; acquiring school buses; and developing and improving athletic facilities, playgrounds and sites. The bonds are to be repaid with fifteen annual installments of \$33,649 commencing on June 28, 2006 being paid into a Trust Account to provide the funds to repay the bond principal in one payment of \$625,000 on June 28, 2020. The bonds are interest-free and the balance on June 30, 2018 is \$625,000. The balance in this trust account at June 30, 2018 is \$489,330.

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2018

NOTE 11 – OPERATING LEASES:

Akron-Fairgrove Schools has entered into the following operating leases as summarized below:

Operating Lease as Lessee

The District entered into a lease with Tax-Exempt Leasing Corp. in January of 2018 for the purpose of leasing a school bus. The lease expires in July of 2020 and requires annual payments of \$14,354.

The District entered into a lease with Tax-Exempt Leasing Corp. in April of 2018 for the purpose of leasing two school buses. The lease expires in July of 2020 and requires annual payments of \$29,646.

At June 30, 2018, future lease payments under these leases are as follows:

June 30, 2019	\$ 44,000
June 30, 2020	44,000

NOTE 12 – CAPITAL ASSETS:

A summary of changes in capital assets follows:

	BALANCE JULY 1, 2017	ADDITIONS	REDUCTIONS	BALANCE JUNE 30, 2018
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 109,436		\$ 109,436	\$ -
Total capital assets, not being depreciated	<u>-</u>	<u>-</u>	<u>109,436</u>	<u>-</u>
Capital assets, being depreciated:				
Buildings	8,427,032	780,495		9,207,527
General Equipment	218,396			218,396
Buses	375,651			375,651
Technology	348,010		110,000	238,010
Playground, Athletic, & Site Improvement	672,337	23,000		695,337
Total capital assets being depreciated	<u>10,041,426</u>	<u>803,495</u>	<u>110,000</u>	<u>10,734,921</u>
Accumulated depreciation:				
Buildings	2,595,503	220,401		2,815,904
General Equipment	79,873	13,852		93,725
Buses	88,394	15,526	22,000	81,920
Technology	248,695	19,863		268,558
Playground, Athletic, & Site Improvement	259,854	21,774		281,628
Total accumulated depreciation	<u>259,854</u>	<u>291,416</u>	<u>22,000</u>	<u>3,541,735</u>
Net capital assets being depreciated	<u>6,769,107</u>	<u>512,079</u>	<u>88,000</u>	<u>7,193,186</u>
Net governmental capital assets	<u>\$ 6,878,543</u>	<u>\$ 512,079</u>	<u>\$ 197,436</u>	<u>\$ 7,193,186</u>

Depreciation for the fiscal year ended June 30, 2018 amounted to \$291,416. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2018

NOTE 13 – SUBSEQUENT EVENTS:

Subsequent to year-end, the District entered into an agreement to borrow \$850,000 as a state aid note maturing August 2019. The note is secured by the full faith and credit of the District as well as pledged state aid.

NOTE 14 - TAX ABATEMENTS:

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 granted by cities, villages and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities. The property taxes abated for all funds by municipality under these programs are as follows:

Municipality	Taxes Abated
Akron Township	\$ 6,743
Total	<u>\$ 6,743</u>

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

There are no significant abatements made by the District.

NOTE 15 – 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	\$ 164,980
Adoption of GASB Statement 75:	
Net OPEB Liability	(1,467,825)
Deferred Outflows	111,428
Deferred Inflows	(43,547)
Net position as restated July 1, 2017	<u>\$ (1,234,964)</u>

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2018

NOTE 16 – 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

AKRON-FAIRGROVE SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2018

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUES:				
Local sources				
Taxes	\$ 863,596	\$ 861,658	\$ 861,658	\$ -
Charges for services	7,700	8,520	9,494	974
Other	18,000	43,588	45,342	1,754
State sources	2,321,396	2,602,317	2,578,357	(23,960)
Federal sources	210,849	251,302	222,580	(28,722)
Incoming transfers and other	19,200	21,035	30,350	9,315
TOTAL REVENUES	<u>3,440,741</u>	<u>3,788,420</u>	<u>3,747,781</u>	<u>(40,639)</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	1,182,597	1,366,550	1,345,734	20,816
Added needs	480,632	566,237	558,642	7,595
Total instruction	<u>1,663,229</u>	<u>1,932,787</u>	<u>1,904,376</u>	<u>28,411</u>
Supporting services:				
Pupil	42,397	38,003	38,003	-
Instructional staff	35,682	37,130	19,902	17,228
General administration	177,309	203,802	198,393	5,409
School administration	275,190	291,519	288,935	2,584
Business	58,326	50,341	50,284	57
Operations & maintenance	282,126	382,134	381,602	532
Pupil transportation	113,320	127,314	128,772	(1,458)
Central services	27,100	33,228	30,548	2,680
Athletics	78,685	74,883	70,227	4,656
Total supporting services	<u>1,090,135</u>	<u>1,238,354</u>	<u>1,206,666</u>	<u>31,688</u>
Community services	7,638	6,274	6,274	-
Facilities improvement	656,843	644,959	644,959	-
Debt service - interest	-	6,126	8,348	(2,222)
TOTAL EXPENDITURES	<u>3,417,845</u>	<u>3,828,500</u>	<u>3,770,623</u>	<u>57,877</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>22,896</u>	<u>(40,080)</u>	<u>(22,842)</u>	<u>17,238</u>
OTHER FINANCING SOURCES (USES):				
Sale of assets	-	56,000	56,000	-
Transfer from Other Funds	11,435	14,343	12,973	(1,370)
Transfer to Other Funds	(33,649)	(33,649)	(33,649)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(22,214)</u>	<u>36,694</u>	<u>35,324</u>	<u>(1,370)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 682</u>	<u>\$ (3,386)</u>	<u>12,482</u>	<u>\$ 15,868</u>
FUND BALANCE - BEGINNING OF YEAR			<u>157,797</u>	
FUND BALANCE - END OF YEAR			<u>\$ 170,279</u>	

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.01577%	0.01522%	0.01529%	0.01473%
Reporting unit's proportionate share of net pension liability	\$ 4,085,610	\$ 3,796,811	\$ 3,734,679	\$ 3,244,022
Reporting unit's covered-employee payroll	\$ 1,341,027	\$ 1,283,319	\$ 1,306,958	\$ 1,358,264
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	304.66%	295.86%	285.75%	238.84%
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.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 432,898	\$ 365,437	\$ 333,751	\$ 280,318
Contributions in relation to statutorily required contributions	<u>432,898</u>	<u>365,437</u>	<u>333,751</u>	<u>280,318</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 1,377,533	\$ 1,334,561	\$ 1,270,171	\$ 1,348,180
Contributions as a percentage of covered-employee payroll	31.43%	27.38%	26.28%	20.79%

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.

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

	2017
Reporting unit's proportion of net OPEB liability (%)	0.01571%
Reporting unit's proportionate share of net OPEB liability	\$ 1,391,596
Reporting unit's covered-employee payroll	\$ 1,341,027
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	103.77%
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.

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

	2018
Statutorily required contributions	\$ 107,275
Contributions in relation to statutorily required contributions	107,275
Contribution deficiency (excess)	\$ -
Reporting unit's covered-employee payroll	\$ 1,377,533
Contributions as a percentage of covered-employee payroll	7.79%

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.

AKRON-FAIRGROVE SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018

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

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

ADDITIONAL SUPPLEMENTARY INFORMATION

AKRON-FAIRGROVE SCHOOLS
NONMAJOR GOVERNMENTAL FUND TYPES
COMBINING BALANCE SHEET
JUNE 30, 2018

	<u>SPECIAL REVENUE</u>		<u>2014 CAPITAL PROJECTS</u>	<u>TOTAL NONMAJOR FUNDS</u>
	<u>FOOD SERVICES</u>			
<u>ASSETS</u>				
Cash and cash equivalents	\$ 39,981	\$	-	\$ 39,981
Due from other funds	1,079			1,079
Inventory	2,836			2,836
Restricted :				
Cash			151	151
Investments			198	198
TOTAL ASSETS	\$ 43,896	\$	349	\$ 44,245
<u>LIABILITIES & FUND BALANCES</u>				
LIABILITIES:				
Accounts payable	\$ 2,750	\$	-	\$ 2,750
Due to other funds	12,973			12,973
Accrued salaries and related items	2,681			2,681
Accrued retirement	1,717			1,717
TOTAL LIABILITIES	20,121		-	20,121
FUND BALANCES:				
Nonspendable:				
Inventory	2,836			2,836
Restricted for:				
Food service	14,976			14,976
Capital projects			349	349
Assigned for:				
Subsequent year expenditures	5,963			5,963
TOTAL FUND BALANCES	23,775		349	24,124
TOTAL LIABILITIES & FUND BALANCES	\$ 43,896	\$	349	\$ 44,245

AKRON-FAIRGROVE SCHOOLS
NONMAJOR GOVERNMENTAL FUND TYPES
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2018

	<u>SPECIAL REVENUE</u>		
	<u>FOOD SERVICES</u>	<u>2014 CAPITAL PROJECTS</u>	<u>TOTAL NONMAJOR FUNDS</u>
REVENUES:			
Local Sources			
Charges for services	\$ 1,212	\$ -	\$ 1,212
Interest	54	9	63
State sources	6,845		6,845
Federal sources	196,763		196,763
TOTAL REVENUES	<u>204,874</u>	<u>9</u>	<u>204,883</u>
EXPENDITURES:			
Food services	203,462	-	203,462
Facilities improvement	-	116	116
TOTAL EXPENDITURES	<u>203,462</u>	<u>116</u>	<u>203,578</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,412	(107)	1,305
OTHER FINANCING SOURCES (USES):			
Transfer to General Fund	(12,973)	-	(12,973)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(12,973)</u>	<u>-</u>	<u>(12,973)</u>
CHANGES IN FUND BALANCES	(11,561)	(107)	(11,668)
FUND BALANCES - BEGINNING OF YEAR	<u>35,336</u>	<u>456</u>	<u>35,792</u>
FUND BALANCES - END OF YEAR	<u>\$ 23,775</u>	<u>\$ 349</u>	<u>\$ 24,124</u>

AKRON-FAIRGROVE SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018

	<u>DEBT SERVICE</u>	<u>QZAB DEBT SERVICE</u>	<u>TOTAL DEBT SERVICE</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 220,146	\$ 489,330	\$ 709,476
Due from other funds	1,369	33,649	35,018
TOTAL ASSETS	<u>\$ 221,515</u>	<u>\$ 522,979</u>	<u>\$ 744,494</u>
<u>LIABILITIES & FUND BALANCES</u>			
LIABILITIES:			
Accounts payable	\$ 15,276	\$ -	\$ 15,276
TOTAL LIABILITIES	<u>15,276</u>	<u>-</u>	<u>15,276</u>
FUND BALANCES:			
Restricted for debt service	<u>206,239</u>	<u>522,979</u>	<u>729,218</u>
TOTAL FUND BALANCES	<u>206,239</u>	<u>522,979</u>	<u>729,218</u>
TOTAL LIABILITIES & FUND BALANCES	<u>\$ 221,515</u>	<u>\$ 522,979</u>	<u>\$ 744,494</u>

AKRON-FAIRGROVE SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2018

	DEBT SERVICE	QZAB DEBT SERVICE	TOTAL DEBT SERVICE
REVENUES:			
Local Sources:			
Property taxes	\$ 522,457	\$ -	\$ 522,457
Interest	349	12,300	12,649
	522,806	12,300	535,106
Total Local Sources			
TOTAL REVENUES	522,806	12,300	535,106
EXPENDITURES:			
Debt Service:			
Principal repayment	470,000	-	470,000
Interest and other fiscal charges	68,074	84	68,158
	538,074	84	538,158
TOTAL EXPENDITURES	538,074	84	538,158
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(15,268)	12,216	(3,052)
OTHER FINANCING SOURCES (USES):			
Transfer from General Fund		33,649	33,649
	-	33,649	33,649
TOTAL OTHER FINANCING SOURCES (USES)	-	33,649	33,649
CHANGES IN FUND BALANCES	(15,268)	45,865	30,597
FUND BALANCES - BEGINNING OF YEAR	221,507	477,114	698,621
FUND BALANCES - END OF YEAR	\$ 206,239	\$ 522,979	\$ 729,218

AKRON-FAIRGROVE SCHOOLS
SCHEDULE OF BONDED DEBT -
2015 REFUNDING BONDS
JUNE 30, 2018

<u>PAYMENT DATE</u>	<u>PRINCIPAL DUE</u>	<u>INTEREST RATE</u>	<u>INTEREST DUE</u>	<u>TOTAL PAYMENT</u>
11/1/2018			\$ 22,031	\$ 22,031
5/1/2019	\$ 300,000	1.35%	22,031	322,031
11/1/2019			20,006	20,006
5/1/2020	300,000	1.55%	20,006	320,006
11/1/2020			17,681	17,681
5/1/2021	300,000	1.75%	17,681	317,681
11/1/2021			15,056	15,056
5/1/2022	305,000	1.95%	15,056	320,056
11/1/2022			12,083	12,083
5/1/2023	315,000	2.20%	12,083	327,083
11/1/2023			8,618	8,618
5/1/2024	325,000	2.40%	8,618	333,618
11/1/2024			4,718	4,718
5/1/2025	370,000	2.55%	4,718	374,718
	<u>\$ 2,215,000</u>		<u>\$ 200,386</u>	<u>\$ 2,415,386</u>

The 2015 Refunding Bonds (the "Bonds") were authorized by the Board of Education of Akron-Fairgrove Schools, County of Tuscola, State of Michigan (the "School District") by resolutions adopted on September 14, 2014 and March 9, 2015 (the "Resolutions") for the purpose of refunding a portion of a prior bond issue of the School District. The Bonds will pledge the full faith and credit of the School District for payment of the principal and interest thereon and will be payable from ad valorem taxes, which may be levied on all taxable property in the School District without limitation as to rate or amount.

AKRON-FAIRGROVE SCHOOLS
SCHEDULE OF BONDED DEBT -
2014 SCHOOL BUILDING AND SITE BONDS
JUNE 30, 2018

<u>PAYMENT DATE</u>	<u>PRINCIPAL DUE</u>	<u>INTEREST RATE</u>	<u>INTEREST DUE</u>	<u>TOTAL PAYMENT</u>
11/1/2018			\$ 9,000	\$ 9,000
5/1/2019	\$ 150,000	1.30%	9,000	159,000
11/1/2019			8,025	8,025
5/1/2020	150,000	1.70%	8,025	158,025
11/1/2020			6,750	6,750
5/1/2021	150,000	2.00%	6,750	156,750
11/1/2021			5,250	5,250
5/1/2022	150,000	2.15%	5,250	155,250
11/1/2022			3,638	3,638
5/1/2023	150,000	2.30%	3,638	153,638
11/1/2023			1,913	1,913
5/1/2024	150,000	2.55%	1,913	151,913
	<u>\$ 900,000</u>		<u>\$ 69,152</u>	<u>\$ 969,152</u>

The 2014 Bonds (the "Bonds") were authorized at an election on May 6, 2014, for the purpose of remodeling, furnishing, and refurbishing and equipping and re-equipping school buildings; acquiring, installing and equipping and re-equipping school buildings for instructional technology; purchasing school buses; and developing and improving athletic facilities and sites. The Bonds will pledge the full faith and credit of the School District for payment of the principal and interest thereon and will be payable from ad valorem taxes, which may be levied without limitation as to rate or amount as provided by Article IX, Section 6, of the Michigan Constitution of 1963.



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

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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
Akron-Fairgrove Schools
Fairgrove, MI 48733

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Akron-Fairgrove Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

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

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

October 8, 2018



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

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To the Members of the Board
Akron-Fairgrove Schools

We have audited the financial statements of **Akron-Fairgrove Schools** for the year ended June 30, 2018, and have issued our report thereon dated October 8, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

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

As part of our audit, we considered the internal control of **Akron-Fairgrove Schools**. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of **Akron-Fairgrove Schools'** compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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 the **Akron-Fairgrove Schools** are described in Note 1 to the financial statements. During 2018 the District implemented Governmental Accounting Standard No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The application of existing policies was not changed during 2018. We noted no transactions entered into by the 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:

Estimates have been used to calculate the net pension liability and the net other postemployment benefit liability.

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's 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 whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to the 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. In addition, none of the misstatements were material, either individually or in the aggregate, to the financial statements taken as a whole.

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 8, 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 the governmental unit'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 **Akron Fairgrove Schools'** auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

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

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Restriction on Use

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

Very truly yours,

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

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

October 8, 2018