

FULTON SCHOOLS

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

YEAR ENDED JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Fulton Schools

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 Fulton Schools, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Fulton 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 Fulton Schools as of June 30, 2019, 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.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2019 on our consideration of Fulton 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 Fulton Schools' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fulton Schools' internal control over financial reporting and compliance.

Maney Costeiran PC

August 29, 2019

**FULTON SCHOOLS
MANAGEMENT'S DISCUSSION & ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2019**

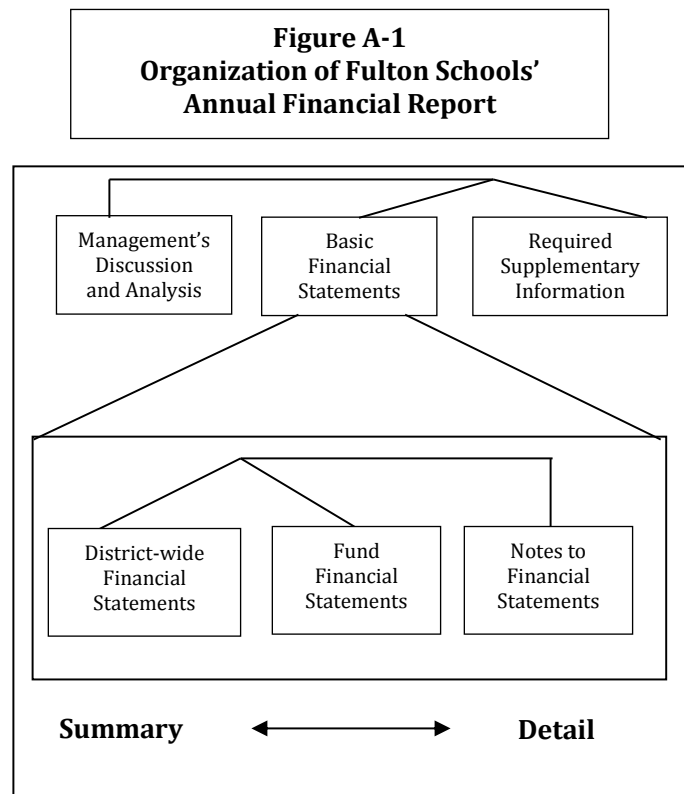
This section of Fulton Schools' annual report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2019. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Fulton Schools, a K-12 school district located in Gratiot County, Michigan, issues its financial statements under the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Administration's Discussion and Analysis, a requirement of accounting principles generally accepted in the United States of America, is intended to be the Fulton Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2019.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *District-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the District-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee* or *agent* for the benefit of others.



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

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

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

DISTRICT-WIDE FINANCIAL STATEMENTS

All of the District's assets, deferred outflows of resources, deferred inflows of resources, and liabilities are reported in the District-wide financial statements and are on a full accrual basis that is similar to those used by private-sector companies. For example, capital assets and long-term obligations of the District are reported in the statement of net position of the District-wide financial statements. The difference between the District's assets, deferred outflows of resources, deferred inflows of resources and liabilities (net position) are one way to measure the District's financial position. However, you need to consider other non-financial factors such as changes in the District's property tax base and the condition and age of the school buildings and other facilities.

The current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. Most of the District's basic services are included here, such as regular and special education, transportation and administration. These activities are financed through the state foundation grant, property taxes and various federal and state programs.

The District's combined net position at the beginning of the fiscal year was (\$10,982,768), and on June 30, 2019 it is (\$11,515,301) which represents a decrease of \$532,533 as recorded in the statement of activities.

FUND FINANCIAL STATEMENTS

The fund financial statements are reported on a modified accrual basis and consist of governmental funds and fiduciary funds. Governmental funds include most of the District's basic services which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending on future District programs.

Fiduciary funds are for assets that belong to others, such as the scholarship fund and the student activities fund where the District is the trustee or fiduciary. The District cannot use these assets to finance its operations, but it is responsible to ensure that these funds are used for their intended purposes. Only measurable and currently available funds are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources. Some of these funds are established by State law and by bond covenants while others can be established for the District to control and manage money for a particular purpose such as school lunch and athletics.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position - The District's combined net deficit increased as of June 30, 2019.

Table A-3
Fulton Public Schools' Net Position

	Governmental Activities	
	2019	2018
Assets		
Current Assets	\$ 2,049,490	\$ 2,907,318
Capital Assets	4,559,547	3,987,683
Total Assets	6,609,037	6,895,001
Deferred Outflows of Resources	5,320,212	2,035,510
Liabilities		
Current Liabilities	1,862,240	1,628,311
Long-Term Liabilities	18,114,897	17,307,901
Total Liabilities	19,977,137	18,936,212
Deferred Inflows of Resources	3,467,413	739,235
Net Position		
Net investment in capital assets	4,262,424	3,960,532
Restricted	109,342	346,655
Unrestricted	(15,887,067)	(15,289,955)
Total Net Position	\$ (11,515,301)	\$ (10,982,768)

Table A-4
Changes in Fulton Public Schools' Net Position

	Governmental Activities	
	2019	2018
Revenues		
Program Revenues		
Charges for Service	\$ 232,668	\$ 189,506
Operating and Capital Grants	2,203,192	2,198,526
General Revenues		
Property Taxes	1,056,997	998,124
State School Aid - unrestricted	4,704,335	5,107,414
Investment Earnings	16,930	13,311
Special Education county allocation	136,432	167,111
Other	92,371	75,139
Total Revenues	8,442,925	8,749,131
Functions/Program Expenses		
Instruction	5,037,639	4,884,103
Supporting services	2,843,111	2,889,017
Community services	272,310	250,571
Food service	381,276	704,914
Other transactions	84,922	119,021
Interest on long-term debt	39,243	10,839
Unallocated depreciation	316,957	313,650
Total Expenses	8,975,458	9,172,115
(Decrease) in Net Position	\$ (532,533)	\$ (422,984)

STATE OF MICHIGAN UNRESTRICTED AID (State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. The Michigan State Aid Act per student foundation allowance which was established under Proposal A has increased from \$4,754 per student in 1995 to \$7,871 per student in 2018-19. The per student State foundation allowance increased by \$240 from 2017-18. This increase followed the previous year increase in foundation allowance paid to the districts from \$7,511 in 2016-17 to \$7,631 in 2017-18.

Student Enrollment

Student enrollment decreased from 758 in 2017-18 to 681 in 2018-19. For the 2019-20 school year it is hopeful that enrollment will be the same as 2018-19 or up slightly.

GOVERNMENTAL FUNDS

Results of Operations:

For the fiscal years ended June 30, 2019 and 2018, the total fund-level results of operations were:

	2019	2018
REVENUES		
Local sources		
Property taxes	\$ 1,056,997	\$ 1,042,322
Investment earnings	16,930	13,311
Food sales, athletics, community service and transportation	232,668	106,657
Other	85,088	107,591
Total local sources	1,391,683	1,269,881
State sources	6,246,487	6,799,543
Federal sources	613,536	557,272
TOTAL REVENUES	\$ 8,251,706	\$ 8,626,696
EXPENDITURES		
Current		
Instruction	\$ 4,972,583	\$ 4,893,451
Supporting services	2,847,229	2,888,489
Food service activities	385,558	312,161
Community service activities	268,133	251,516
Capital Outlay	940,677	174,638
Debt service		
Principal	270,095	-
Interest expense	37,972	13,233
TOTAL EXPENDITURES	\$ 9,722,247	\$ 8,533,488

The following summarizes the revenues and expenses by comparing fiscal year 2019 to 2018 as shown in the previous results of operations.

- Property tax revenue increased slightly due to taxable values increasing.
- State sources decreased due to decreases in enrollment.
- Federal sources showed an increase due to a \$108,000 increase in federal school lunch funds.
- Expenses increased from \$8.5 million in 2018 to \$9.7 million, an increase of \$1,2 million, mostly due to approximately \$900,000 of expenditures on the high school building addition.

GENERAL FUND AND BUDGET HIGHLIGHTS

Original vs. Final Budget

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. The original 2018-19 budget was approved on June 21, 2018.

The 2018-19 budget was revised two times throughout the fiscal year, with the final revision approved on June 10, 2019. The final budget revision anticipated fewer revenues and expenses than was expected in June 2018 when the original budget was approved. The decrease in revenues was a result of receiving less state and local funding than anticipated due to a decrease in enrollment.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2019, the District had invested \$12.9 million in a broad range of capital assets.

	2019			2018
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 12,225	\$ -	\$ 12,225	\$ 12,225
Construction in progress	-	-	-	53,033
Buildings and additions	8,231,604	4,196,813	4,034,791	3,332,565
Equipment and Furniture	3,059,879	2,864,019	195,860	243,191
Vehicles	1,173,207	1,031,766	141,441	163,907
Other	512,525	337,295	175,230	182,762
Total	<u>\$ 12,989,440</u>	<u>\$ 8,429,893</u>	<u>\$ 4,559,547</u>	<u>\$ 3,987,683</u>

SCHOOL SERVICE (SPECIAL REVENUE) FUNDS

Fulton Schools also has school service funds that include a Food Service Fund.

The Food Service Fund is a fund that reports the food service program. In 2018-2019 the Food Service Fund had revenues of \$435,470 and expenditures of \$385,558. The Food Service Fund is supposed to be self-supporting and reimburses the General Fund for substantially all identified overhead costs associated with its operation. The Food Service Fund had a fund balance of \$69,255.

LONG-TERM DEBT

On July 11, 2018, the board of education approved the issuance of \$500,000 in school improvement bonds to help fund facility and site upgrades. The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. See Note 6 for more information.

	2019	2018
Installment Note 2018	\$ 17,846	\$ 27,151
Installment Note 2019	24,277	-
Compensated Absences	310,855	308,611
2018 Building Site Bond	255,000	-
	<u>\$ 607,978</u>	<u>\$ 335,762</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

There are several factors that could significantly affect the financial health of the District in the future.

Our elected officials and administration considered many factors when setting the School District's 2019 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2019 fiscal year was 10 percent and 90 percent of the February 2018 and September 2018 student counts, respectively. The 2020 fiscal year budget was adopted in June 2019, based on an estimate of students that will be enrolled in September 2019. Approximately 87 percent of total General Fund revenues are from State sources. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2019-2020 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2020 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the revenues it receives. If you have any questions about this report or need any additional information, please contact Business Services Office, Fulton Schools, 8060 Ely Highway, Middleton, Michigan 48856.

BASIC FINANCIAL STATEMENTS

FULTON SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities
ASSETS	
Current assets	
Cash	\$ 162,290
Investments	338,360
Other receivables	9,500
Due from other governmental units	1,520,873
Prepays	2,924
Inventories	15,543
Total current assets	2,049,490
Noncurrent assets	
Capital assets not being depreciated	12,225
Capital assets, net of accumulated depreciation	4,547,322
Total noncurrent assets	4,559,547
TOTAL ASSETS	6,609,037
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	4,611,112
Deferred outflows of resources related to OPEB	709,100
Total deferred outflows of resources	5,320,212
LIABILITIES	
Current liabilities	
Accounts payable	24,892
Accrued payroll	642,764
Due to other governmental units	9,160
Accrued interest payable	1,271
Short-term note payable	598,426
Current portion of compensated absences	310,855
Current portion of long-term debt	274,872
Total current liabilities	1,862,240
Noncurrent liabilities	
Noncurrent portion of long-term debt	22,251
Net pension liability	14,397,464
Net OPEB liability	3,695,182
Total noncurrent liabilities	18,114,897
TOTAL LIABILITIES	19,977,137
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	1,885,716
Deferred inflows of resources related to OPEB	1,067,613
Deferred inflows of resources - related to state aid funding for pensions and OPEB	514,084
Total deferred inflows of resources	3,467,413
NET POSITION	
Net investment in capital assets	4,262,424
Restricted for sinking fund activities	109,342
Unrestricted	(15,887,067)
TOTAL NET POSITION	\$ (11,515,301)

See notes to financial statements.

**FULTON SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants	Governmental Activities
Governmental activities				
Instruction	\$ 5,037,639	\$ 65,788	\$ 1,872,791	\$ (3,099,060)
Supporting services	2,843,111	61,949	-	(2,781,162)
Community services	272,310	-	-	(272,310)
Food service	381,276	104,931	330,401	54,056
Other transactions	84,922	-	-	(84,922)
Interest and fees on long-term debt	39,243	-	-	(39,243)
Unallocated depreciation	316,957	-	-	(316,957)
	TOTAL EXPENSES	\$ 232,668	\$ 2,203,192	(6,539,598)
General Revenues				
Property taxes				1,056,997
State aid unrestricted				4,704,335
Special education county allocation				136,432
Investment earnings				16,930
Miscellaneous				92,371
				TOTAL GENERAL REVENUES
				6,007,065
				CHANGE IN NET POSITION
				(532,533)
				Net position, beginning of year
				(10,982,768)
				Net position, end of year
				\$ (11,515,301)

See notes to financial statements.

**FULTON SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019**

	General	Sinking Fund	Nonmajor Governmental Fund (Food Service)	Total
ASSETS				
Cash	\$ 29,782	\$ 99,593	\$ 32,915	\$ 162,290
Investments	338,360	-	-	338,360
Other receivables	9,500	-	-	9,500
Due from other governmental units	1,501,653	-	19,220	1,520,873
Due from other funds	-	11,020	19,188	30,208
Prepays	2,924	-	-	2,924
Inventories	5,525	-	10,018	15,543
	<u>5,525</u>	<u>-</u>	<u>10,018</u>	<u>15,543</u>
TOTAL ASSETS	<u>\$ 1,887,744</u>	<u>\$ 110,613</u>	<u>\$ 81,341</u>	<u>\$ 2,079,698</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 11,535	\$ 1,271	\$ 12,086	\$ 24,892
Accrued payroll	642,764	-	-	642,764
Due to other governmental units	9,160	-	-	9,160
Due to other funds	30,208	-	-	30,208
Short-term note payable	598,426	-	-	598,426
	<u>598,426</u>	<u>-</u>	<u>-</u>	<u>598,426</u>
TOTAL LIABILITIES	1,292,093	1,271	12,086	1,305,450
FUND BALANCES				
Nonspendable				
Inventories	5,525	-	10,018	15,543
Prepays	2,924	-	-	2,924
Restricted				
Capital projects and major repairs	-	109,342	-	109,342
Food service	-	-	59,237	59,237
Unassigned	587,202	-	-	587,202
	<u>587,202</u>	<u>-</u>	<u>-</u>	<u>587,202</u>
TOTAL FUND BALANCES	<u>595,651</u>	<u>109,342</u>	<u>69,255</u>	<u>774,248</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,887,744</u>	<u>\$ 110,613</u>	<u>\$ 81,341</u>	<u>\$ 2,079,698</u>

See notes to financial statements.

FULTON SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019

Total governmental fund balances \$ 774,248

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

Deferred outflows of resources - related to pensions	4,611,112
Deferred inflows of resources - related to pensions	(1,885,716)
Deferred outflows of resources - related to other postemployment benefits	709,100
Deferred inflows of resources - related to other postemployment benefits	(1,067,613)
Deferred inflows of resources - related to state aid funding for pensions and other postemployment benefits	(514,084)

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

The cost of the capital assets is	\$ 12,989,440	
Accumulated depreciation is	<u>(8,429,893)</u>	
		4,559,547

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

General obligation bonds	(255,000)
Notes from direct borrowings and direct placements	(42,123)
Compensated absences	(310,855)
Accrued interest is not included as a liability in government funds, it is recorded when paid	(1,271)
Net pension liability	(14,397,464)
Net other postemployment benefits liability	<u>(3,695,182)</u>

Net position of governmental activities **\$ (11,515,301)**

FULTON SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019

	General	Sinking Fund	Nonmajor Governmental Funds (Food Service)	Total
REVENUES				
Local sources	\$ 815,572	\$ 471,042	\$ 105,069	\$ 1,391,683
State sources	6,235,660	-	10,827	6,246,487
Federal sources	293,962	-	319,574	613,536
TOTAL REVENUES	7,345,194	471,042	435,470	8,251,706
EXPENDITURES				
Current				
Instruction	4,972,583	-	-	4,972,583
Supporting services	2,847,229	-	-	2,847,229
Community services	268,133	-	-	268,133
Food service	-	-	385,558	385,558
Capital outlay	-	940,677	-	940,677
Debt service	40,389	267,678	-	308,067
TOTAL EXPENDITURES	8,128,334	1,208,355	385,558	9,722,247
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(783,140)	(737,313)	49,912	(1,470,541)
OTHER FINANCING SOURCES (USES)				
Proceeds from installment note	30,702	-	-	30,702
Proceeds from bond issuance	-	500,000	-	500,000
County special education allocation	202,086	-	-	202,086
Payments to other districts	(84,922)	-	-	(84,922)
TOTAL OTHER FINANCING SOURCES (USES)	147,866	500,000	-	647,866
NET CHANGE IN FUND BALANCES	(635,274)	(237,313)	49,912	(822,675)
Fund balances, beginning of year	1,230,925	346,655	19,343	1,596,923
Fund balances, end of year	<u>\$ 595,651</u>	<u>\$ 109,342</u>	<u>\$ 69,255</u>	<u>\$ 774,248</u>

See notes to financial statements.

FULTON 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, 2019

Net change in fund balances total governmental funds \$ (822,675)

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

Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	(316,957)
Capital outlay	888,821

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, beginning of the year	-
Accrued interest payable, end of the year	(1,271)

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

Proceeds from bonded debt	(500,000)
Payments to refunded bond escrow agent	-
Payments on bonded debt	245,000
Proceeds from other long-term debt	(30,702)
Payments on other long-term debt	15,730

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, beginning of the year	308,611
Accrued compensated absences, end of the year	(310,855)

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

Pension related items	(210,161)
Other postemployment benefits related items	212,793

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

State aid funding for pension and other postemployment benefits, beginning of the year	503,217
State aid funding for pension and other postemployment benefits, end of the year	<u>(514,084)</u>

Change in net position of governmental activities \$ (532,533)

FULTON SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2019

	<u>Agency Fund</u>
ASSETS	
Cash	<u>\$ 82,406</u>
LIABILITIES	
Due to	
Elementary	\$ 39,145
Middle School/High School	21,020
Athletic Groups	<u>22,241</u>
TOTAL LIABILITIES	<u>\$ 82,406</u>

See notes to financial statements.

**FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

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 financial statements. *Governmental activities* normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

Reporting Entity

Fulton Schools (the "District") is governed by the Fulton 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 sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the 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 - governmental 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 *sinking fund* accounts for the receipt of bond proceeds and property tax revenues used for repairs throughout the district.

The sinking fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation - Fund Financial Statements (continued)

Other Nonmajor Funds

The *food service 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 food service fund.

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 fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Measurement Focus and Basis of Accounting

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

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

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.

FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

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 generally 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 leases are reported as other financing sources.

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

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the current year ended, the foundation allowance was based on 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 Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the Foundation is funded primarily by Non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds 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 measurable and available only when cash is received by the District.

Budgetary Information

Budgetary basis of accounting:

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

FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgetary Information (continued)

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:

- a. 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.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
- d. 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.
- e. The budget was amended during the year with supplemental appropriations, the last one approved prior to year end June 30, 2019. The District does not consider these amendments to be significant.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

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.

Investments

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

**FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Investments (continued)

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.

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 the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

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

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

<u>Capital Asset Classes</u>	<u>Lives</u>
Building and additions	5 - 45 years
Equipment and furniture	5 - 20 years
Vehicles	8 years
Other capital equipment	5 - 20 years

FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

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.

Deferred Outflows

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

Deferred Inflows

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

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.

FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

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.

Fund Balance Policies

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

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

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board of Education may also assign fund balance 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

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 of 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.

**FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues and Expenditures/Expenses (continued)

Property Taxes

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

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 leaves, resignations or retirements. The liability for compensated absences includes salary and related benefits, where applicable.

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 in which they are incurred.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

As of June 30, 2019, the District had the following investments:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Weighted Market Value</u>	<u>Average Maturity</u>
Uncategorized pooled investments			
MILAF + Cash Management Class	\$ 921	\$ 921	1 day
MILAF + MAX Class	337,439	337,439	1 day
	<u>\$ 338,360</u>	<u>\$ 338,360</u>	

FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

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

The federated government obligations comply with Rule 2a-7's definition of a government money market fund. Accordingly, they are not subject to the fair value disclosures.

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

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2019, the MILAF+ investments were rated AAAm by Standard and Poor's and had a weighted average maturity of one day.

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, 2019, \$283,914 of the District's bank balance of \$553,136 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 \$244,696.

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

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

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

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

**FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

The three levels of the fair value hierarchy are described as follows:

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

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

MILAF investments fair value measurement is Level 2.

The above amounts are reported in the financial statements as listed below. Certain interest-bearing deposits have been reported as investments.

	Governmental Activities	Fiduciary Fund	Total
Cash	\$ 162,290	\$ 82,406	\$ 244,696
Investments	338,360	-	338,360
	\$ 500,650	\$ 82,406	\$ 583,056

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2019 consist of the following:

	Government- wide
State aid	\$ 1,104,423
Federal revenue	131,635
Other	284,815
	\$ 1,520,873

No allowance for doubtful accounts is considered necessary based on previous experience.

FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CAPITAL ASSETS

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

	<u>Balance July 1, 2018</u>	<u>Additions/ Reclassifications</u>	<u>Deletions/ Reclassifications</u>	<u>Balance June 30, 2019</u>
Capital assets not being depreciated				
Land	\$ 12,225	\$ -	\$ -	\$ 12,225
Construction in progress	<u>53,033</u>	<u>-</u>	<u>(53,033)</u>	<u>-</u>
Subtotal	65,258	-	(53,033)	12,225
Capital assets being depreciated				
Buildings and improvements	7,319,892	911,712	-	8,231,604
Equipment and furniture	3,059,879	-	-	3,059,879
Vehicles	1,281,375	30,142	(138,310)	1,173,207
Other	<u>512,525</u>	<u>-</u>	<u>-</u>	<u>512,525</u>
Subtotal	12,173,671	941,854	(138,310)	12,977,215
Less accumulated depreciation for:				
Buildings and improvements	(3,987,327)	(209,486)	-	(4,196,813)
Equipment and furniture	(2,816,688)	(47,331)	-	(2,864,019)
Vehicles	(1,117,468)	(52,608)	138,310	(1,031,766)
Other	<u>(329,763)</u>	<u>(7,532)</u>	<u>-</u>	<u>(337,295)</u>
Subtotal	<u>(8,251,246)</u>	<u>(316,957)</u>	<u>138,310</u>	<u>(8,429,893)</u>
Net capital assets being depreciated	<u>3,922,425</u>	<u>624,897</u>	<u>-</u>	<u>4,547,322</u>
Capital assets, net	<u>\$ 3,987,683</u>	<u>\$ 624,897</u>	<u>\$ (53,033)</u>	<u>\$ 4,559,547</u>

Depreciation for the fiscal year ended June 30, 2019 amounted to \$316,957. Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE 5 - NOTE PAYABLE - STATE AID ANTICIPATION NOTE

On August 21, 2017, the District issued Tax Anticipation Notes in the amount of \$1,000,000 for the purpose of funding operating expenditures. This short-term note, which had a net outstanding balance of \$600,000 at June 30, 2018, was reported in the General Fund and in the government-wide financial statements under the caption short-term notes payable. The balance was paid on August 20, 2018.

**FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - NOTE PAYABLE - STATE AID ANTICIPATION NOTE (continued)

During the current year the District was issued a state aid anticipation note in the amount of \$1,000,000 which had an interest rate of 1.75%. Proceeds of the note were used to fund school operations. The note was secured by the full faith and credit of the District as well as pledged as state aid. In an event of a default on the note, the state may impose a penalty interest rate and at the state's discretion, accelerate the repayment terms. The remaining installments of \$598,426 are reported in the General Fund and in the government-wide financial statements under the caption short-term notes payable.

<u>Balance June 30, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2019</u>
<u>\$ 600,000</u>	<u>\$ 1,000,000</u>	<u>\$ (1,001,574)</u>	<u>\$ 598,426</u>

NOTE 6 - LONG-TERM OBLIGATIONS

The following is a summary of long-term obligations for the District for the year ended June 30, 2019:

	<u>General Obligation Bonds</u>	<u>Notes from Direct Borrowings and Direct Placements</u>	<u>Compensated Absences</u>	<u>Total</u>
Balance July 1, 2018	\$ -	\$ 27,151	\$ 308,611	\$ 335,762
Additions	500,000	30,702	39,064	569,766
Deletions	<u>(245,000)</u>	<u>(15,730)</u>	<u>(36,820)</u>	<u>(297,550)</u>
Balance June 30, 2019	255,000	42,123	310,855	607,978
Due within one year	<u>(255,000)</u>	<u>(19,872)</u>	<u>(310,855)</u>	<u>(585,727)</u>
Due in more than one year	<u>\$ -</u>	<u>\$ 22,251</u>	<u>\$ -</u>	<u>\$ 22,251</u>

**FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM OBLIGATIONS (continued)

Long-term obligations at June 30, 2019 is comprised of the following issues:

General Obligation Bonds

2018 School Improvement Bonds due in annual installment of \$255,000 on May 1, 2020 with an interest rate of 2.99%.	\$ 255,000
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Notes from Direct Borrowings and Direct Placements

\$29,545 installment note dated April 21, 2018, due in monthly installments of \$903, including interest of 6.65%, through March 21, 2021.	17,846
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\$30,702 installment note dated November 19, 2018, due in monthly installments of \$941, including interest of 6.90% through October 19, 2021.	24,277
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Total notes from direct borrowings	42,123
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Total general obligation bonds and notes from direct borrowings	297,123
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Compensated absences	310,855
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Total general long-term obligations	\$ 607,978
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The District's outstanding notes from direct borrowings and direct placements related to governmental activities of \$42,123 contains provisions that in an event of default, either by (1) unable to make principal or interest payments (2) false or misrepresentation is made to the lender (3) become insolvent or make an assignment for the benefit of its creditors (4) if the lender at any time in good faith believes that the prospect of payment of any indebtedness is impaired. Upon the occurrence of any default event, the outstanding amounts, including accrued interest become immediately due and payable.

The annual requirements to pay the debt principal and interest outstanding for the school improvement bonds and installment notes are as follows:

Year Ending June 30,	Installment Notes		2018 School Improvement Bonds	
	Principal	Interest	Principal	Interest
2020	\$ 19,872	\$ 2,252	\$ 255,000	\$ 7,625
2021	18,539	879	-	-
2022	3,712	53	-	-
	\$ 42,123	\$ 3,184	\$ 255,000	\$ 7,625

**FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2019 are as follows:

Receivable Fund		Payable Fund	
Food service	\$	19,188	General fund
Sinking fund		11,020	\$ 30,208
		\$ 30,208	

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 system, and (3) payments between funds are made.

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (System) 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 www.michigan.gov/ors schools.

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

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

Benefits Provided - Overall

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the 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

FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Benefits Provided - Pension

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

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

Pension Reform 2010

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

Pension Reform 2012

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

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

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

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

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

FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension Reform 2012 (continued)

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

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

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

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

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

Final Average Compensation (FAC) - Average of highest 60 consecutive months for Basic plan members and Pension Plus members (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.

FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Benefits Provided - Other Postemployment Benefit (OPEB)

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

Retiree Healthcare Reform of 2012

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

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

Regular Retirement (no reduction factor for age)

Eligibility - A Basic plan member may retire at age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided 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.

**FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Employer Contributions

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

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

For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of September 30, 2017 valuation will be amortized over a 21-year period beginning October 1, 2017 and ending September 30, 2038.

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 Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	19.03-23.05 %
Member Investment Plan	3.0 - 7.0%	19.03-23.05 %
Pension Plus	3.0 - 6.4%	18.4 %
Defined Contribution	0.00%	15.27-18.75 %

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.0%	5.91-7.36 %
Personal Healthcare Fund	0.0%	5.69-6.98 %

The District's pension contributions for the year ended June 30, 2019 were equal to the required contribution total. Pension contributions were approximately \$1,231,000, with \$1,215,000 specifically for the Defined Benefit Plan.

The District's OPEB contributions for the year ended June 30, 2019 were equal to the required contribution total. OPEB benefits were approximately \$356,000, with \$335,000 specifically for the Defined Benefit Plan.

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

**FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Pension Liabilities

At June 30, 2019, the District reported a liability of \$14,397,464 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2017 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, 2018 and 2017, the District's proportion was 0.04789% and 0.04976%.

<u>MPSERS (Plan) Non-University Employers</u>	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Total Pension Liability	\$ 79,863,694,444	\$ 72,407,218,688
Plan Fiduciary Net Position	49,801,889,205	46,492,967,561
Net Pension Liability	30,061,805,239	25,914,251,127
Proportionate Share	0.04789%	0.04976%
Net Pension Liability for the District	\$ 14,397,464	\$ 12,894,462

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

For the year ended June 30, 2019, the District recognized pension expense of \$1,540,430.

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 34,134	\$ 796,671
Differences between expected and actual experience	66,807	104,624
Changes of assumptions	3,334,441	-
Net differences between projected and actual plan investment earnings	-	984,421
District's contributions subsequent to the measurement date	<u>1,175,730</u>	<u>-</u>
	<u>\$ 4,611,112</u>	<u>\$ 1,885,716</u>

FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

\$1,175,730, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

<u>Year Ending September 30,</u>	<u>Amount</u>
2019	\$ 665,322
2020	423,465
2021	319,911
2022	140,968

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

OPEB Liabilities

At June 30, 2019, the District reported a liability of \$3,695,182 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2017 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, 2018 and 2017, the District's proportion was 0.04976% and 0.049637%.

<u>MPSERS (Plan) Non-University Employers</u>	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Total Other Postemployment Benefit Liability	\$ 13,932,170,264	\$ 13,920,945,991
Plan Fiduciary Net Position	5,983,218,473	5,065,474,936
Net Other Postemployment Benefit Liability	7,948,951,791	8,855,471,055
Proportionate Share	0.04649%	0.49637%
Net Other Postemployment Benefit Liability for the District	\$ 3,695,182	\$ 4,395,593

FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

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

For the year ended June 30, 2019, the District recognized OPEB expense of \$128,868.

At June 30, 2019, the District 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
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 602	\$ 237,830
Differences between expected and actual experience	-	687,768
Changes of assumptions	391,322	-
Net differences between projected and actual plan investment earnings	-	142,015
Reporting unit's contributions subsequent to the measurement date	317,176	-
	\$ 709,100	\$ 1,067,613

\$317,176, 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 Ending September 30,	Amount
2019	\$ (159,791)
2020	(159,791)
2021	(159,791)
2022	(130,897)
2023	(65,419)

**FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions

Investment Rate of Return for Pension - 7.05% 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 - 7.15% a year, compounded annually net of investment and administrative expenses.

Salary Increases - The rate of pay increase used for individual members is 2.75%.

Inflation - 3.0%.

Mortality Assumptions:

Retirees - RP-2014 Male and Female Healthy Annuitant Mortality Tables scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Active - RP-2014 Male and Female Employee Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Disabled Retirees - RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Experience Study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2017. Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the determination of the total pension and OPEB liability beginning with the September 30, 2017 valuation.

Long-Term Expected Rate of Return on Pension and Other Postemployment Benefit Plan Investments - The pension rate was 7.05% (7% Pension Plus Plan), and the other postemployment benefit rate was 7.15%, net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Healthcare Cost Trend Rate for Other Postemployment Benefit - 7.5% for year one and graded to 3.0% in year twelve.

**FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

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 one or more dependents.

The target asset allocation at September 30, 2018 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0%	5.7%
% Alternative Investment Pools	18.0%	9.2%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	0.5%
Real Estate & Infrastructure Pools	10.0%	3.9%
Absolute Return Pools	15.5%	5.2%
Short Term Investment Pools	2.0%	0.0%
Total	100%	

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

Pension Discount Rate - A single discount rate of 7.05% was used to measure the total pension liability (7.00% for the Pension Plus Plan and 6.00% for the Pension Plus 2 Plan). This discount rate was based on the long-term rate of return on pension plan investments of 7.05% (7.00% for the Pension Plus Plan and 6.00% for the Pension Plus 2 Plan). The projection of cash flows used to determine this single discount rate assumed that plan member 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.

**FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

OPEB Discount Rate - A single discount rate of 7.15% 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 7.15%. 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.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the Reporting Unit's proportionate share of the net pension liability calculated using a single discount rate of 7.05% (7.00% for the Pension Plus Plan and 6.00% for the Pension Plus 2 Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease	Current Single Discount Rate Assumption	1% Increase
District's proportionate share of the net pension liability	\$ 18,902,759	\$ 14,397,464	\$ 10,654,297

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the Reporting Unit's proportionate share of the net OPEB liability calculated using a single discount rate of 7.15%, as well as what the Reporting Unit's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Other Postemployment Benefit		
	1% Decrease	Discount Rate	1% Increase
District's proportionate share of the net other postemployment benefit liability	\$ 4,435,991	\$ 3,695,182	\$ 3,072,072

Sensitivity to the Net OPEB liability to Changes in the Healthcare Cost Trend Rates - The following presents the Reporting Unit's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate of 7.5% (decreasing to 3.0%), as well as what the Reporting Unit's proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Other Postemployment Benefit		
	1% Decrease	Healthcare Cost Trend	1% Increase
District's proportionate share of the net other postemployment benefit liability	\$ 3,039,247	\$ 3,695,182	\$ 4,447,674

FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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 2018 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).

NOTE 9 - RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool, with other school districts for property, liability, in-land marine, boiler and machinery, fleet, employee dishonesty, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. In the event the pool's 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 District has not been informed of any special assessments being required.

The District is exposed to risks of loss related to the District's workers' compensation for which the District carries commercial insurance. There has been no indication of amounts of settlements that have exceeded insurance coverages for each of the past three years.

NOTE 10 - SUBSEQUENT EVENTS

Subsequent to year end, the District borrowed \$1,200,000 to meet future cash flow needs. Future revenues are expected to be sufficient to pay this obligation.

NOTE 11 - UPCOMING ACCOUNTING PRONOUNCEMENTS

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

FULTON SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 11 - UPCOMING ACCOUNTING PRONOUNCEMENTS (continued)

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

FULTON SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 683,415	\$ 839,838	\$ 815,572	\$ (24,266)
State sources	6,619,330	6,061,206	6,235,660	174,454
Federal sources	306,524	292,938	293,962	1,024
TOTAL REVENUES	7,609,269	7,193,982	7,345,194	151,212
EXPENDITURES				
Current				
Instruction				
Basic programs	3,344,532	3,120,085	3,472,034	(351,949)
Added needs	841,331	707,292	712,382	(5,090)
Adult and continuing education	824,405	887,730	788,167	99,563
Total instruction	5,010,268	4,715,107	4,972,583	(257,476)
Supporting services				
Student services	248,359	222,068	263,823	(41,755)
Instructional staff	138,877	86,078	89,826	(3,748)
General administration	247,498	306,195	335,042	(28,847)
School administration	457,395	434,760	483,499	(48,739)
Other business services	152,865	132,958	144,847	(11,889)
Operations and maintenance	634,570	716,432	710,694	5,738
Transportation	335,601	382,671	456,989	(74,318)
Central support	78,845	98,430	100,523	(2,093)
Athletics	248,818	225,116	261,986	(36,870)
Other	1,260	20,725	-	20,725
Total supporting services	2,544,088	2,625,433	2,847,229	(221,796)
Community services	239,180	225,598	268,133	(42,535)
Debt service	-	-	40,389	(40,389)
TOTAL EXPENDITURES	7,793,536	7,566,138	8,128,334	(562,196)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(184,267)	(372,156)	(783,140)	(410,984)

**FULTON SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE (continued)
GENERAL FUND
YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
OTHER FINANCING SOURCES (USES)				
Proceeds from installment note	\$ -	\$ -	\$ 30,702	\$ 30,702
County special education allocation	225,000	202,086	202,086	-
Payments to other districts	<u>(120,000)</u>	<u>(88,024)</u>	<u>(84,922)</u>	<u>3,102</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>105,000</u>	<u>114,062</u>	<u>147,866</u>	<u>33,804</u>
NET CHANGE IN FUND BALANCE	(79,267)	(258,094)	(635,274)	(377,180)
Fund balance, beginning of year	<u>1,230,925</u>	<u>1,230,925</u>	<u>1,230,925</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,151,658</u>	<u>\$ 972,831</u>	<u>\$ 595,651</u>	<u>\$ (377,180)</u>

**FULTON 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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
District's proportion of net pension liability (%)	0.05332%	0.05361%	0.05198%	0.04976%	0.04789%
District's proportionate share of net pension liability	\$ 11,745,038	\$ 13,093,018	\$ 12,969,767	\$ 12,894,462	\$ 14,397,464
District's covered employee payroll	\$ 4,358,138	\$ 4,178,385	\$ 4,318,227	\$ 4,091,550	\$ 3,961,509
District's proportionate share of net pension liability as a percentage of its covered employee payroll	269.50%	313.35%	300.35%	315.15%	363.43%
Plan fiduciary net position as a percentage of total pension liability	66.20%	63.17%	63.27%	64.21%	62.36%

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.

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Statutorily required contributions	\$ 1,013,289	\$ 1,397,986	\$ 1,597,897	\$ 1,650,240	\$ 1,304,133
Contributions in relation to statutorily required contributions	<u>1,013,289</u>	<u>1,397,986</u>	<u>1,597,897</u>	<u>1,650,240</u>	<u>1,304,133</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 4,346,221	\$ 4,334,595	\$ 4,228,538	\$ 4,048,214	\$ 4,000,441
Contributions as a percentage of covered employee payroll	23.31%	32.25%	37.79%	40.76%	32.60%

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.

**FULTON 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)**

	<u>2017</u>	<u>2018</u>
District's proportion of net OPEB liability (%)	0.04964%	0.04976%
District's proportionate share of net OPEB liability	\$ 4,395,593	\$ 3,695,182
District's covered employee payroll	\$ 4,091,550	\$ 3,961,509
District's proportionate share of net OPEB liability as a percentage of its covered employee payroll	107.43%	93.28%
Plan fiduciary net position as a percentage of total OPEB liability	36.39%	42.95%

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.

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

	<u>2018</u>	<u>2019</u>
Statutorily required contributions	\$ 386,445	\$ 301,742
Contributions in relation to statutorily required contributions	<u>386,445</u>	<u>301,742</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 4,048,214	\$ 4,000,441
Contributions as a percentage of covered employee payroll	9.55%	7.54%

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.

FULTON SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2019

NOTE 1 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

The approved budgets of the District have been adopted at the functional level for the General Fund and the total expenditure level for the Food Service Fund.

During the year ended June 30, 2019, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Expenditures			
Instruction			
Basic Programs	\$ 3,120,085	\$ 3,472,034	\$ 351,949
Added needs	707,292	712,382	5,090
Supporting services			
Student services	222,068	263,823	41,755
Instructional staff	86,078	89,826	3,748
General administration	306,195	335,042	28,847
School administration	434,760	483,499	48,739
Other business services	132,958	144,847	11,889
Transportation	382,671	456,989	74,318
Central support	98,430	100,523	2,093
Athletics	225,116	261,986	36,870
Community services	225,598	268,133	42,535
Debt service	-	40,389	40,389

NOTE 2 - PENSION INFORMATION

Benefit changes - there were no changes of benefit terms in 2018.

Changes of assumptions - the assumption changes for 2018 were:

Wage inflation rate decreased to 2.75% from 3.50%.

Discount rate for MIP and Basic plans decreased to 7.05% from 7.50%.

Projected salary increases decreased to 2.75%-11.55%, including wage inflation at 2.75% from 3.50-12.30%, including wage inflation of 3.50%.

Mortality assumptions were updated to the RP-2014 Male and Female Healthy Annuitant table from the RP-2000 Combined Healthy Life Mortality table.

FULTON SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (continued)
YEAR ENDED JUNE 30, 2019

NOTE 3 - OPEB INFORMATION

Benefit changes - there were no changes of benefit terms in 2018.

Changes of assumptions - the assumption changes for 2018 were:

Wage inflation rate decreased to 2.75% from 3.50%.

Discount rate for decreased to 7.15% from 7.50%.

Projected salary increases decreased to 2.75%-11.55%, including wage inflation at 2.75% from 3.50-12.30%, including wage inflation of 3.50%.

Healthcare cost trend rate decreased to 7.50% Year 1 graded to 3.00% Year 12 from 7.50% Year 1 graded to 3.50% Year 12.

Mortality assumptions were updated to the RP-2014 Male and Female Healthy Annuitant table from the RP-2000 Combined Healthy Life Mortality table.

**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
Fulton Schools

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fulton Schools as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Fulton Schools' basic financial statements and have issued our report thereon dated August 29, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Fulton 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 Fulton Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Fulton Schools' internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fulton Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

2019-001 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund.

Criteria: The Uniform Budgeting and Accounting Act requires the District to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Cause: The District did not adequately monitor expenditures in relation to budgeted amounts.

Effect: The District adopted the budget for the General Fund at the functional level and the Special Revenue funds at the total expenditure. Having unfavorable budget variances as described above, the District is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the District monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: The District has implemented a process to better monitor the budget and actual expenditures. The Business Office is working with other senior administrators to provide a better understanding of the budget process. The Board has appointed a Finance Committee. This Committee will meet as needed to gain in-depth information regarding the budget and any variances.

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.

Maney Costerian PC

August 29, 2019

August 29, 2019

To the Board of Education
Fulton Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fulton Schools (the District) for the year ended June 30, 2019, and have issued our report thereon dated August 29, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Governmental Auditing Standards*, as well as certain information related to the planned scope and timing of the audit. We have communicated such information in our letter to you dated July 23, 2019. Professional standards also require that we communicate to you the following information related to our audit.

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 Fulton Schools are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2019. 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 estimates affecting the financial statements were:

Estimates have been used to calculate the net pension liability and the net other postemployment benefit liability. We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate in calculating the liability for employee compensated absences. We evaluated the key factors and assumptions used to develop the balance of employee compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

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

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

We did not identify any sensitive disclosures.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 August 29, 2019.

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 Fulton Schools' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Fulton 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, and other knowledge we obtained during our 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.

A separate management letter was not issued.

This information is intended solely for the use of the Board of Education and management of Fulton Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Manes Costeiran PC