

**NORTH HURON SCHOOLS
KINDE, MICHIGAN**

**FINANCIAL STATEMENTS
JUNE 30, 2018**

NORTH HURON SCHOOLS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
North Huron Schools
Kinde, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 12 to the financial statements, North Huron Schools implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North Huron School's basic financial statements. The additional supplementary information is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2018, on our consideration of North Huron School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the North Huron School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Huron School's internal control over financial reporting and compliance.

Nietzke & Faupel P.C.

NIETZKE & FAUPEL, P.C.
Pigeon, Michigan

October 3, 2018

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of North Huron School’s annual financial report presents our discussion and analysis of the District’s financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the district’s financial statements, which immediately follow this section.

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

FINANCIAL HIGHLIGHTS

The District’s General Fund showed expenditures exceeded revenue by \$274,330.

The Food Service Fund showed expenditures exceeded revenue by \$12,461. This decreased the fund balance from \$60,372 to \$47,911.

In total, District revenues exceeded \$6.1 and \$5.9 million dollars for the fiscal years ended June 30, 2018 and 2017, respectively. Expenditures over the same time period were \$6.3 and \$6.0 million dollars for the fiscal years ended June 30, 2018 and 2017, respectively.

During the fiscal year 2018, the District retired \$930,000 of principal from its long-term debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

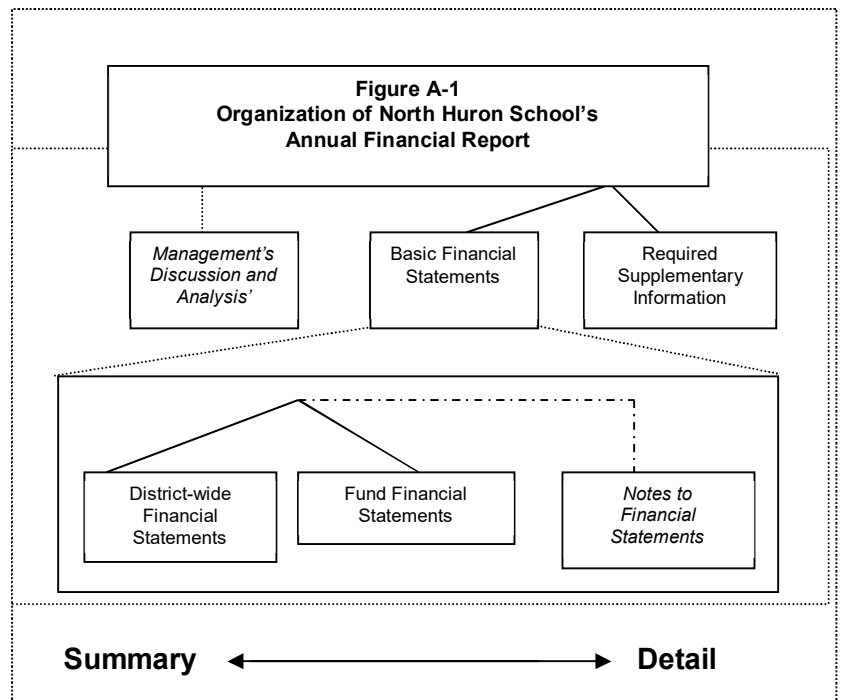
This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

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

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

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



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

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

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

GOVERNMENT-WIDE STATEMENTS

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

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

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

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

In the government-wide financial statements, the District's activities included:

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

FUND FINANCIAL STATEMENTS

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

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

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

The District has two kinds of funds:

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position at the beginning of the fiscal year, restated due to GASB Statement 75 implementation, was \$(1,915,412) and on June 30, 2018 was \$(1,496,713) which represents an increase of \$418,699 as recorded in the statement of activities.

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

**Table A-3
North Huron Schools
Net Position**

	<u>2018</u>	<u>2017</u>
Current assets	\$ 2,472,724	\$2,635,495
Noncurrent assets	<u>6,609,396</u>	<u>6,832,057</u>
Total assets	<u>9,082,120</u>	<u>9,467,552</u>
Deferred outflows of resources	<u>1,817,321</u>	<u>1,464,320</u>
Current liabilities	988,617	1,471,203
Noncurrent liabilities	1,717,199	2,176,069
Net other postemployment benefits liability	2,212,478	-
Net pension liability	<u>6,438,035</u>	<u>6,266,656</u>
Total liabilities	<u>11,356,329</u>	<u>9,913,928</u>
Deferred inflows of resources	<u>1,039,825</u>	<u>689,513</u>
Net position:		
Net investment in capital assets	4,566,753	3,869,038
Restricted	451,402	338,422
Unrestricted	<u>(6,514,868)</u>	<u>(3,879,029)</u>
Total net position	<u><u>\$ (1,496,713)</u></u>	<u><u>\$ 328,431</u></u>

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

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

Table A-4
Change in North Huron School's Net Position

	<u>2018</u>	<u>2017</u>
Revenues		
Program revenues		
Charges for services	\$ 192,185	\$ 116,563
Federal and state categorical grants	1,412,561	1,385,443
General revenues		
Property taxes	4,036,833	3,735,614
State sources	415,810	669,267
Other	84,984	76,285
Total revenues	<u>6,142,373</u>	<u>5,983,172</u>
 Expenses		
Instruction	3,276,535	3,558,627
Support services	2,019,341	2,112,392
Community services	121,543	27,040
Food services	235,423	248,463
Interest on long-term debt	57,225	88,372
Depreciation - Unallocated	13,607	13,604
Total expenses	<u>5,723,674</u>	<u>6,048,498</u>
 Change in net position	<u>418,699</u>	<u>(65,326)</u>
 Net position, beginning of year	(1,915,412)	393,757
 Net position, end of year	<u>\$ (1,496,713)</u>	<u>\$ 328,431</u>

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

District Governmental Activities

The financial performance of the District as a whole is reflected in its governmental funds. As the district completed the year, its governmental funds reported combined fund balances of \$1,961,293. This is a decrease of \$(194,273) from the previous year primarily from an increase in employee salary and benefits.

The District's financial condition has been impacted by a number of factors.

- The District continues to contract with a third party provider for supporting services as well as student transportation services.
- Full-time equivalent students enrolled in the District decreased from 414.65 (October 2017) to 399.09 (February 2018 count). North Huron Schools does participate in school of choice and open enrollment to attract new students to the District.
- The District's payment into the Michigan Public School Employees' Retirement System (MPERS) ranged from 32.28% to 36.88% of qualified wages in 2017-18. 11.32% of this cost was offset by State categorical revenues.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

General Fund Budget Highlights

During the 2018 fiscal year, the District's original budget was amended to reflect changes which affected the District. These changes included adjustments for the final student count, adjustments to the State revenue projections and the final determination of grant awards.

The final amended budget reported expenditures \$325,850 greater than revenues and other financing sources. Final results showed that revenues were \$20,488 less than anticipated, and expenditures were \$64,008 less than anticipated. The net result after other financing sources and (uses) was a change in the fund balance of \$(274,330), decreasing the fund balance to \$1,498,102. This is approximately 30% of the annual general fund expenditures.

Overall, the difference between the District's final amended budget and end of the year figures amounted to a \$51,520 variance. The variance was primarily due to less expenditures than expected.

Food Service Fund

Local revenue decreased \$7,119; Federal reimbursements decreased \$13,788 and state reimbursements decreased \$2,360. Overall revenue decreased \$23,267 from 2017.

On the expenditure side, food cost decreased \$15,084, and wages and employee benefits increased \$1,163. The overall change in expenditures was a decrease of \$13,040 over 2017.

Capital Projects Fund

The District has completed its projects with regard to the 2014 School Technology Bonds.

Debt Service Fund

Property taxes increased \$151,536. Principal payments increased \$30,000. Interest and fiscal charges decreased \$30,950. Overall the fund balance increased \$117,262 for fiscal year 2018. Additional information can be found in the combining statements on page 47.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District added \$51,956 in capital assets during the fiscal year. There were no capital asset disposals in 2017-2018.

Table A-5
North Huron Schools Capital Assets
(Net of Depreciation)

	<u>2018</u>	<u>2017</u>
Land	\$ 20,300	\$ 20,300
Buildings and additions	6,240,364	6,455,485
Furniture and equipment	233,977	216,831
Transportation equipment	<u>114,755</u>	<u>139,441</u>
Totals	<u>\$6,609,396</u>	<u>\$6,832,057</u>

Long-term Debt

At year-end, the District had over \$2.1 million in general obligation bonds and other long-term debt outstanding. During fiscal year 2018, the District repaid \$930,000 in principal. Included in long-term debt is the Port Hope Community School 2015 Refunding Bonds in the amount of \$1,315,000. The long-term debt consisted of the following:

	<u>2018</u>	<u>2017</u>
<u>Port Hope debt:</u>		
General obligation bonds (financed with property taxes)	\$ 1,347,643	\$ 1,567,540
<u>North Huron debt:</u>		
General obligation bonds (financed with property taxes)	695,000	1,423,838
Compensated absences	<u>119,453</u>	<u>138,322</u>
Totals	<u>\$2,162,096</u>	<u>\$3,129,700</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

- The foundation allowance for the District for 2018-19 school year will be \$8,008, up \$225 from the previous year. At-Risk funding will remain equal to previous year, and Federal Title I and Title II programs are showing an increase for the coming school year of \$56,472 and \$10,422.
- Student enrollment for 2018-19 is projected to be 370, which is a decrease of 29 students from the prior spring count.
- To attract new students to the District, North Huron contracted with the local Intermediate School District to house a Great Start Readiness Program beginning with the 2016-17 school year. An Early Learning Center-Day Care was also added in June of 2017 and participation has been positive.

- The District's 2005 Debt Retirement Refunding Bond was paid in full with the final payment in May of 2018. A 2018 Building and Site Bond Proposal for \$7.87 million for 11 years was approved by voters in May 2018. Part of the bond will be used to expand the agriculture program and the manufacturing & robotics labs.
- Retirement contributions will have a new average rate of 38.39% of salaries, effective October 1, 2018, with 12.21% of this cost expected to be offset by State categorical revenues.
- The District had filed Protective Claims via Form 941-X for FICA withheld on the 3% Healthcare Portion of Michigan Public School Employee Retirement System beginning with 2010. The IRS has starting issuing refunds for FICA tax withheld on the 3% Healthcare Portion that employees "elected" to have withheld beginning Feb 2013. The District has received refund checks for 6 of the 19 quarters thus far.

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 money it receives. If you have questions about this report or need additional information, contact the Business Office, North Huron Schools, 21 East Main Street, Kinde, MI 48445

BASIC FINANCIAL STATEMENTS

NORTH HURON SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2018

	GOVERNMENTAL ACTIVITIES
ASSETS:	
Cash and deposits	\$ 830,714
Investments	1,234,525
Receivables:	
Accounts receivable	8,240
Due from other governmental units	378,262
Inventory	4,019
Prepaid expenses	16,964
Nondepreciated capital assets	20,300
Depreciated capital assets	14,011,858
Less: Accumulated depreciation	(7,422,762)
TOTAL ASSETS	9,082,120
 DEFERRED OUTFLOWS OF RESOURCES:	
Deferred charge on bond refunding	27,726
Related to other postemployment benefits	100,679
Related to pensions	1,688,916
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,817,321

NORTH HURON SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2018

	<u>GOVERNMENTAL ACTIVITIES</u>
LIABILITIES:	
Accounts payable	\$ 68,809
Accrued salaries and related items	268,481
Voluntary incentive pay	25,000
Accrued retirement	105,383
Accrued interest payable	7,289
Accrued expenses	47,174
Unearned revenue	21,584
Noncurrent liabilities:	
Due within one year	444,897
Due in more than one year	1,717,199
Net other postemployment benefits liability	2,212,478
Net pension liability	6,438,035
TOTAL LIABILITIES	<u>11,356,329</u>
 DEFERRED INFLOWS OF RESOURCES:	
Related to other postemployment benefits	74,798
Related to pensions	710,312
Related to state aid funding for pension and other postemployment benefits	254,715
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,039,825</u>
 NET POSITION:	
Net investment in capital assets	4,566,753
Restricted for:	
Debt service	220,775
Library fund	186,459
Community service	757
Food service	43,411
Unrestricted	(6,514,868)
TOTAL NET POSITION	<u>\$ (1,496,713)</u>

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

NORTH HURON SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUE		GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
Governmental activities:				
Instruction	\$ 3,276,535	\$ 4,272	\$ 1,230,997	\$ (2,041,266)
Support services	2,019,341	43,828	16,382	(1,959,131)
Community services	121,543	76,384	-	(45,159)
Food service	235,423	67,701	165,182	(2,540)
Interest on long-term obligations	57,225	-	-	(57,225)
Depreciation - Unallocated	13,607	-	-	(13,607)
Total governmental activities:	\$ 5,723,674	\$ 192,185	\$ 1,412,561	(4,118,928)
General revenues:				
Property taxes, levied for general purposes				2,914,107
Property taxes, levied for debt service				1,122,726
State sources - unrestricted				415,810
Investment earnings				18,775
Sale of assets				45
Miscellaneous				66,164
Total general revenues				4,537,627
CHANGE IN NET POSITION				418,699
NET POSITION, beginning of year, as restated				(1,915,412)
NET POSITION, end of year				\$ (1,496,713)

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

NORTH HURON SCHOOLS

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

	<u>GENERAL</u>	<u>FOOD SERVICE</u>	<u>COMBINED DEBT SERVICE</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>					
Cash and deposits	\$ 580,160	\$ 21,631	\$ 228,923	\$ -	\$ 830,714
Investments	1,008,266	-	-	226,259	1,234,525
Accounts receivable	106	933	-	7,201	8,240
Due from other governmental units	371,325	6,937	-	-	378,262
Due from other funds	276,419	149,740	-	134,949	561,108
Inventory	-	4,019	-	-	4,019
Prepaid expenditures	16,483	481	-	-	16,964
TOTAL ASSETS	<u>\$ 2,252,759</u>	<u>\$ 183,741</u>	<u>\$ 228,923</u>	<u>\$ 368,409</u>	<u>\$ 3,033,832</u>
<u>LIABILITIES AND FUND BALANCES</u>					
LIABILITIES:					
Accounts payable	\$ 60,474	\$ 58	\$ -	\$ 8,277	\$ 68,809
Due to other funds	261,389	126,004	859	172,856	561,108
Accrued salaries and related items	262,685	5,796	-	-	268,481
Accrued retirement	103,928	1,455	-	-	105,383
Accrued expenses	44,657	2,517	-	-	47,174
Unearned revenue	21,524	-	-	60	21,584
TOTAL LIABILITIES	<u>754,657</u>	<u>135,830</u>	<u>859</u>	<u>181,193</u>	<u>1,072,539</u>
FUND BALANCES:					
Nonspendable:					
Inventory	-	4,019	-	-	4,019
Prepaid expenditures	16,483	481	-	-	16,964
Restricted for:					
Food service	-	43,411	-	-	43,411
Debt service	-	-	228,064	-	228,064
Community service	-	-	-	757	757
Library	-	-	-	186,459	186,459
Assigned for:					
Subsequent year expenditures	97,190	-	-	-	97,190
Unassigned	1,384,429	-	-	-	1,384,429
TOTAL FUND BALANCES	<u>1,498,102</u>	<u>47,911</u>	<u>228,064</u>	<u>187,216</u>	<u>1,961,293</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,252,759</u>	<u>\$ 183,741</u>	<u>\$ 228,923</u>	<u>\$ 368,409</u>	<u>\$ 3,033,832</u>

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

NORTH HURON SCHOOLS

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

TOTAL GOVERNMENTAL FUND BALANCES \$ 1,961,293

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

Deferred charge on bond refunding	27,726	
Deferred outflows of resources - related to pensions	1,688,916	
Deferred inflows of resources - related to pensions	(710,312)	
Deferred outflows of resources - related to other postemployment benefits	100,679	
Deferred inflows of resources - related to other postemployment benefits	(74,798)	
Deferred inflows of resources - related to state funding for pension and other postemployment benefits	(254,715)	

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

	The cost of capital assets is	\$ 14,032,158	
	Accumulated depreciation is	<u>(7,422,762)</u>	6,609,396

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

	2005 Refunding bonds issued at a premium	(228,850)	
	Less: Amortization of bond premium	<u>196,207</u>	(32,643)

Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

	Bonds payable	2,010,000	
	Compensated absences	119,453	
	Voluntary incentive pay	25,000	
	Accrued interest payable	7,289	
	Net other postemployment benefits liability	2,212,478	
	Net pension liability	<u>6,438,035</u>	(10,812,255)

NET POSITION - GOVERNMENTAL ACTIVITIES \$ (1,496,713)

NORTH HURON SCHOOLS

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

	<u>GENERAL</u>	<u>FOOD SERVICE</u>	<u>COMBINED DEBT SERVICE</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUE:					
Local sources:					
Taxes	\$ 2,914,107	\$ -	\$ 1,122,726	\$ -	\$ 4,036,833
Food service	-	67,744	-	-	67,744
Interest	13,853	-	1,691	3,188	18,732
Other local revenue	408,878	-	-	76,384	485,262
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total local sources	3,336,838	67,744	1,124,417	79,572	4,608,571
State sources	1,202,639	10,745	-	-	1,213,384
Federal sources	165,936	154,437	-	-	320,373
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL REVENUE	4,705,413	232,926	1,124,417	79,572	6,142,328
EXPENDITURES:					
Instruction	3,058,857	-	-	-	3,058,857
Supporting services	1,885,219	-	-	-	1,885,219
Community services	4,676	-	-	116,867	121,543
Food service	-	235,423	-	-	235,423
Capital projects	-	-	-	28,449	28,449
Debt service:					
Principal repayment	-	-	930,000	-	930,000
Interest and fiscal charges	-	-	77,155	-	77,155
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	4,948,752	235,423	1,007,155	145,316	6,336,646
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<hr/> (243,339)	<hr/> (2,497)	<hr/> 117,262	<hr/> (65,744)	<hr/> (194,318)
OTHER FINANCING SOURCES (USES):					
Other financing sources (uses)	10,045	(10,000)	-	-	45
Transfers in (out)	(41,036)	36	-	41,000	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	(30,991)	(9,964)	-	41,000	45
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<hr/> (274,330)	<hr/> (12,461)	<hr/> 117,262	<hr/> (24,744)	<hr/> (194,273)
FUND BALANCE - JULY 1	1,772,432	60,372	110,802	211,960	2,155,566
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
FUND BALANCE - JUNE 30	\$ 1,498,102	\$ 47,911	\$ 228,064	\$ 187,216	\$ 1,961,293

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

NORTH HURON SCHOOLS

**RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGE IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (194,273)

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

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

Depreciation expense	\$ (274,617)	
Capital outlays	<u>51,956</u>	(222,661)

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

Accrued interest payable, beginning of year	12,643	
Accrued interest payable, end of year	<u>(7,289)</u>	5,354

Bond repayments and proceeds are reported as revenue and expenditures in the fund financial statements and do not affect the statement of activities.

Proceeds from long-term debt	-	
Repayment of bond principal	<u>930,000</u>	930,000

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

Amortization of bond premium	18,735	
Deferred loss on bond refunding	<u>(4,159)</u>	14,576

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

Accrued compensated absences, beginning of year	138,322	
Accrued compensated absences, end of year	<u>(119,453)</u>	18,869

Accrued voluntary incentive pay is recorded in the statement of activities when incurred, but it is not recorded in the governmental funds until it is paid.

Accrued voluntary incentive pay, beginning of year	25,000	
Accrued voluntary incentive pay, end of year	<u>(25,000)</u>	-

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

Other postemployment benefit items		57,246
Pension related items		(131,853)

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

State aid funding for pension, beginning of year	196,156	
State aid funding for pension, end of year	<u>(254,715)</u>	(58,559)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 418,699

NORTH HURON SCHOOLS

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

	<u>AGENCY FUNDS</u>
ASSETS	
Cash and deposits	\$ 85,778
TOTAL ASSETS	<u>\$ 85,778</u>
LIABILITIES:	
Due to student groups	\$ 85,778
TOTAL LIABILITIES	<u>\$ 85,778</u>

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The North Huron School District is a consolidated school system located in Huron County, Michigan. The School has approximately 439 students in grades kindergarten through twelve. The School operates under a seven person elected Board of Education.

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

The Reporting Entity:

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

Government-wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type activities. All of the District's activities are classified as governmental activities.

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

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

The District first utilizes restricted resources to finance qualifying activities.

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

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

Government-wide and Fund Financial Statements: (Continued)

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

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

The District does not allocate indirect costs.

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

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

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

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 *food service fund* is a special revenue fund used to account for revenue sources and expenditures for the operations of the food service to the District.

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

Other Non-major Funds:

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its library and community service fund in a special revenue fund.

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

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

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

Governmental Funds: (Continued)

Other Non-major Funds: (Continued)

The 2014 School Technology Bond Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of Section 1351(a)(2) of the Revised School Code.

Beginning with the year of bond issuance, the school district has reported the annual construction activity in the 2014 capital projects fund. The projects for which the 2014 School Technology Bonds were issued were considered complete on September 7, 2016 and the cumulative expenditures recognized for the construction period were as follows:

Revenue and other financing sources	\$ 750,292
Expenditures and outgoing transfers	\$ 705,504
Net bond proceeds included in revenue	\$ 750,000

The *fiduciary funds* account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide financial 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 method of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

Measurement Focus, Basis of Accounting and Basis of Presentation:

Accrual Method

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

Modified Accrual Method

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

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED) **Measurement Focus, Basis of Accounting and Basis of Presentation: (Continued)**

State Revenue

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

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes (formerly known as Non-Homestead) which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The state revenue is recognized during the foundation period and is funded through payments from October 2017 to August 2018. Thus, the unpaid portion at June 30th 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. Categorical funds which are not expended by the close of the fiscal year are recorded as unearned revenue.

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

Other Accounting Policies:

Cash and Equivalents

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

Investments

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

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

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

Other Accounting Policies: (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.

Receivables and Payables

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

Inventory and Prepaid Items

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

Capital Assets

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

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

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

Buildings and additions	50 years
Furniture and other equipment	5 – 15 years

The District's capitalization policy is to capitalize assets with an initial individual cost of \$3,000 or more. Group purchases are evaluated on a case-by-case basis.

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Defined Benefit Plan

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

Deferred Outflows/Inflows of Resources

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

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

Compensated Absences

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

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

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. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses/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.

Fund Balance

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

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

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

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

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

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

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

NORTH HURON SCHOOLS

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (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 date is September 14 and February 14, after which time the taxes becomes delinquent and penalties and interest may be assessed by the collecting entity.

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

<u>Fund</u>	<u>Mills</u>
General Fund:	
Non-Principal Resident Exemption (PRE)	18.000
Commercial Personal Property	6.000
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property – North Huron	2.450
PRE, Non-PRE, Commercial Personal Property – Port Hope	2.450

Use of Estimates:

The process of preparing financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated accounts.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

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

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

NORTH HURON SCHOOLS

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

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

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The Board of Education requires that the budget be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to July 1, the budget is legally enacted by a School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. Formal budgetary integration is employed as a management control device during the year for the General, Debt Service, Library, Community Service, and Food Service Funds.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2018.

The School District incurred no expenditures in certain budgetary funds which were in excess of the amounts appropriated.

NOTE 3 – DEPOSITS AND INVESTMENTS:

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

Statement of Net Position

Government-wide Financial Statement Captions:

Cash and deposits	\$ 830,714
Investments	1,234,525

Statement of Fiduciary Net Position

Cash and deposits	<u>85,778</u>
Total	<u><u>\$2,151,017</u></u>

Notes to Financial Statements

Deposits	\$ 916,472
Cash on hand	20
Investments	<u>1,234,525</u>
Total	<u><u>\$2,151,017</u></u>

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 3 – DEPOSITS AND INVESTMENTS: (CONTINUED)

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

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's rating</u>	<u>%</u>
MILAF External Investment pool - CMC	\$ 5,231	0.0027	AAAm	0.4%
MILAF External Investment pool - MAX	<u>1,229,294</u>	0.0027	AAAm	<u>99.6%</u>
Total fair value	<u>\$ 1,234,525</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals approximately .0027 years.

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

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

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

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

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2018, \$759,413 of the District's bank balance of \$1,010,154 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount is \$916,472.

NORTH HURON SCHOOLS

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

NOTE 3 – DEPOSITS AND INVESTMENTS: (CONTINUED)

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

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

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

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES:

<u>FUND</u>	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
General Fund	\$ 276,419	\$ 261,389
Food Service	149,740	126,004
Debt Service	-	859
Library Fund	-	39,800
Community Service Fund	<u>134,949</u>	<u>133,056</u>
TOTAL	<u>\$ 561,108</u>	<u>\$ 561,108</u>

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

The General Fund transferred \$41,000 to the Community Service Fund to support operations.

NOTE 5 - RECEIVABLES:

Receivables at June 30, 2018 from other governmental units consist of the following:

Governmental units:	
State revenue	\$ 228,983
Federal revenue	52,094
Local revenue	<u>105,425</u>
Totals	<u>\$ 386,502</u>

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

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

NORTH HURON SCHOOLS

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

NOTE 6 – CAPITAL ASSETS:

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

	<u>2017</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	<u>2018</u>
Assets not being depreciated - Land	\$ 20,300	\$ -	\$ -	\$ 20,300
Capital assets, being depreciated:				
Buildings and additions	12,603,351	-	-	12,603,351
Furniture and equipment	726,359	51,956	-	778,315
Transportation equipment	630,192	-	-	630,192
Subtotal	<u>13,980,202</u>	<u>51,956</u>	<u>-</u>	<u>14,032,158</u>
Accumulated depreciation:				
Buildings and additions	6,147,866	215,121	-	6,362,987
Furniture and equipment	509,528	34,810	-	544,338
Transportation equipment	490,751	24,686	-	515,437
Subtotal	<u>7,148,145</u>	<u>274,617</u>	<u>-</u>	<u>7,422,762</u>
Net capital assets	<u>\$6,832,057</u>	<u>\$ (222,661)</u>	<u>\$ -</u>	<u>\$ 6,609,396</u>

Depreciation expense was charged to programs of the primary government as follows:

Instruction	\$ 139,398
Support services	117,148
Athletics	4,464
Unallocated	13,607
Total depreciation	<u>\$274,617</u>

NORTH HURON SCHOOLS

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

NOTE 7 - LONG-TERM DEBT:

The District issued 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. Long-term obligations currently outstanding are as follows:

Port Hope Debt

2015 refunding bonds due in annual installments of \$210,000 to \$230,000 through May 2024 with interest between 2.0% and 3.0%	\$ 1,315,000
Premium on refunding bonds	32,643

North Huron Debt

2014 School Technology Bonds due in annual installments of \$25,000 to \$240,000, starting May 1, 2017 through May 1, 2021 with net interest of \$2.20% by maturity	<u>695,000</u>
Total general obligation bonds	2,042,643
Obligation under contract for compensated absences	<u>119,453</u>
Total general long-term debt	<u>\$ 2,162,096</u>

Interest expense (all funds) for the year ended June 30, 2018 was approximately \$78,000.

In prior years, the District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2018, \$1,380,000 of bonds outstanding are considered defeased.

The following is a summary of the debt transactions of the District for the year ended June 30, 2018:

	<u>2017</u>	<u>ADDITIONS</u>	<u>PAYMENTS</u>	<u>2018</u>	<u>DUE WITHIN ONE YEAR</u>
<u>Port Hope</u>					
2015 refunding bonds	\$ 1,530,000	\$ -	\$ 215,000	\$ 1,315,000	\$ 215,000
Premium on bonds	37,540	-	4,897	32,643	4,897
<u>North Huron</u>					
2005 refunding bonds	685,000	-	685,000	-	-
2014 school tech bonds	725,000	-	30,000	695,000	225,000
Premium on bonds	13,838	-	13,838	-	-
Compensated absences	<u>138,322</u>	<u>-</u>	<u>18,869</u>	<u>119,453</u>	<u>-</u>
Totals	<u>\$ 3,129,700</u>	<u>\$ -</u>	<u>\$ 967,604</u>	<u>\$ 2,162,096</u>	<u>\$ 444,897</u>

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 7 - LONG-TERM DEBT: (CONTINUED)

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

Years ending <u>June 30,</u>	<u>Port Hope</u>		<u>North Huron</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2019	\$ 215,000	\$ 28,400	\$ 225,000	\$ 15,336	\$ 483,736
2020	215,000	24,100	230,000	11,060	480,160
2021	220,000	19,800	240,000	6,000	485,800
2022	225,000	15,400	-	-	240,400
2023	230,000	10,900	-	-	240,900
2024	210,000	6,300	-	-	216,300
Premium on bonds	32,643	-	-	-	32,643
Compensated absences	-	-	119,453	-	119,453
Totals	<u>\$ 1,347,643</u>	<u>\$ 104,900</u>	<u>\$ 814,453</u>	<u>\$ 32,396</u>	<u>\$ 2,299,392</u>

NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT:

Plan Description

The Michigan Public School Employee's retirement System (MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPERS issues a publicly available Comprehensive Annual Financial report that can be obtained at www://michigan.gov/mpser-cafr.

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

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

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT: (CONTINUED)

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

Benefits Provided - Pension

Benefit provisions of the defined 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% to 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 Employee's Retirement System (MPSERS) who became a member of the MPSERS 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.

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT: (CONTINUED) **Pension Reform 2012 (Continued)**

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

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

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

Basic plan members: 4% contribution

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

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

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

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

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

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT: (CONTINUED) **Pension Reform 2012 (Continued)**

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

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

Pension Reform of 2017

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

Benefits Provided – Other postemployment benefit (OPEB)

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

Retiree Healthcare Reform of 2012

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

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT: (CONTINUED) **Retiree Healthcare Reform of 2012 (Continued)**

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.

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

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

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT: (CONTINUED) **Employer Contributions (Continued)**

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 ORS. The range of rates is as follows:

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

The District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately \$608,371, with \$595,218 specifically for the Defined Benefit Plan.

The District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total. OPEB benefits were approximately \$140,539, with \$131,239 specifically for the Defined Benefit Plan.

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

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

Pension Liabilities

At June 30, 2018, the District reported a liability of \$6,438,035 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the District's proportion was .02484% and .02512%.

<u>MPSERS (Plan) Non-university employers:</u>	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Total pension liability	\$ 72,407,218,688	\$ 67,917,445,078
Plan fiduciary net position	\$ 46,492,967,573	\$ 42,968,263,308
Net pension liability	\$ 25,914,251,115	\$ 24,949,181,770
Proportionate share	0.02484%	0.02512%
Net pension liability for the District	\$ 6,438,035	\$ 6,266,656

NORTH HURON SCHOOLS

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

NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT: (CONTINUED)

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

For the year ended June 30, 2018, the District recognized pension expense of \$682,036.

At June 30, 2018, the Reporting Unit 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	\$ 388,331	\$(370,942)
Difference between expected and actual experience	55,951	(31,590)
Changes of assumptions	705,338	-
Net difference between projected and actual plan investment earnings	-	(307,780)
Reporting Unit's contributions subsequent to the measurement date	539,296	-
Totals	<u>\$ 1,688,916</u>	<u>\$(710,312)</u>

\$539,296 reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

<u>Years ended September 30,</u>	<u>Amount</u>
2018	\$ 132,011
2019	\$ 235,687
2020	\$ 92,756
2021	\$ (21,146)

NORTH HURON SCHOOLS

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

NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT: (CONTINUED)

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

OPEB Liabilities

At June 30, 2018, the District reported a liability of \$2,212,478 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017, the District's proportion was 0.02498 percent.

<u>MPERS (Plan) Non-univeristy employers</u>	<u>September 30, 2017</u>
Total Other Postemployment Benefit Liability	\$ 13,920,945,991
Plan Fiduciary Net Position	\$ 5,065,474,948
Net Other Postemployment Benefit Liability	\$ 8,855,471,043
Proportionate share	0.02498%
Net Other Postemployment Benefit Liability for the District	\$ 2,212,478

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$148,005.

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

	Deferred Outflows of <u>Resources</u>	Deferred (Inflows) of <u>Resources</u>
Difference between expected and actual experience	\$ -	\$ (23,556)
Net difference between projected and actual earnings on OPEB plan investments	-	(51,242)
Changes in proportion and differences between employer contributions and proportionate share of contributions	81	-
Reporting Unit's contributions subsequent to the measurement date	100,598	-
Totals	<u>\$ 100,679</u>	<u>\$ (74,798)</u>

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT: (CONTINUED)

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

\$100,598, reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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

<u>Years ended September 30,</u>	<u>Amount</u>
2018	\$(18,057)
2019	(18,057)
2020	(18,057)
2021	(18,057)
2022	(2,489)

Actuarial Assumptions

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

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

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

Inflation – 3.0%

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

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

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

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT: (CONTINUED)
Actuarial Assumptions (Continued)

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

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

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

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

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

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

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

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

*Long-term rate of return does not include 2.3% inflation.

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT: (CONTINUED)
Actuarial Assumptions (Continued)

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

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

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

	Pension		
	1% Decrease (6.5% / 6.0%)	Discount Rate (7.5% / 7.0%)	1% Increase (8.5% / 8.0%)
Reporting Unit’s proportionate share of the net pension liability	<u>\$8,386,619</u>	<u>\$6,438,035</u>	<u>\$4,797,452</u>

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT: (CONTINUED) **Actuarial Assumptions (Continued)**

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

	Other postemployment benefit		
	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Reporting Unit's proportionate share of the net other postemployment benefit liability	<u>\$2,591,452</u>	<u>\$2,212,478</u>	<u>\$1,890,849</u>

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

	Other postemployment benefit		
	1% Decrease (6.5% decreasing to 2.5%)	Healthcare cost trend rates (7.5% decreasing to 3.5%)	1% Increase (8.5% decreasing to 4.5%)
Reporting Unit's proportionate share of the net other postemployment benefit liability	<u>\$1,873,672</u>	<u>\$2,212,478</u>	<u>\$2,597,170</u>

Pension and OPEB Plan Fiduciary Net Position

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

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

NORTH HURON SCHOOLS

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

NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT: (CONTINUED)

Other Information

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

NOTE 9 - OPERATING LEASES:

The School District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the unpaid balances of the lease agreements are not reflected in the School District’s long-term debt.

The following is a schedule by year of future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2018.

Years ending	
<u>June 30,</u>	<u>Amount</u>
2019	\$ 8,577
2020	11,436
2021	11,436
2022	11,436
2023	2,859
Total minimum payments required	<u>\$45,744</u>

NOTE 10 - CONTINGENT LIABILITY:

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

The district annexed Port Hope Community Schools in 2015. Currently, there is a liability for overpayments of state aid on Port Hope Community Schools’ state aid account. The amount is \$11,613 as of June 30, 2018. The state keeps this account open three years after annexation. The balance, if any, will be charged to North Huron Schools’ state aid account in 2019.

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 11 - RISK MANAGEMENT:

General Liability

The School District participates in the MASB-SEG Property/Casualty Pool, Inc. for the coverage of significant losses due to its general liability. The participation in the pool constitutes transfer of the risk for significant losses with a limit of \$5 million per occurrence for real and personal property losses and a limit of \$5 million in the aggregate for personal injury. For automotive liability, the pool constitutes transfer of the risk with a limit of \$5 million for bodily injury and property damage combined. For excess liability, there is a limit of \$1 million for each occurrence. The School District is required to pay an annual premium to the MASB-SEG Property/Casualty Pool, Inc. for the liability coverage. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Worker's Compensation

The School District is insured through SET/SEG Workers Compensation Disability Compensation for losses related to workers' compensation claims.

Employee Health Care

The School District uses HealthPlus for health insurance coverage for its employees and their dependents.

NOTE 12 – NEW ACCOUNTING STANDARDS:

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

Summary:

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

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

	<u>Governmental Activities</u>
Net position as previously stated July 1, 2017	\$ 328,431
Adoption of GASB Statement 75:	
Net other postemployment benefit liability	(2,333,674)
Deferred outflows	162,824
Deferred inflows	(72,993)
Net position as restated July 1, 2017	<u>\$ (1,915,412)</u>

NORTH HURON SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 13 – UPCOMING ACCOUNTING STANDARDS:

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

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

REQUIRED SUPPLEMENTARY INFORMATION

NORTH HURON SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2018

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUE:				
Local sources:				
Taxes	\$ 2,740,125	\$ 2,968,969	\$ 2,914,107	\$ (54,862)
Interest	7,250	13,701	13,853	152
Athletic activities	36,700	43,828	43,828	-
Other local revenue	356,747	347,635	365,050	17,415
Total local sources	<u>3,140,822</u>	<u>3,374,133</u>	<u>3,336,838</u>	<u>(37,295)</u>
State sources	1,454,198	1,169,281	1,202,639	33,358
Federal sources	144,548	182,487	165,936	(16,551)
TOTAL REVENUE	<u>4,739,568</u>	<u>4,725,901</u>	<u>4,705,413</u>	<u>(20,488)</u>
EXPENDITURES:				
Instruction				
Pre-kindergarten	122,457	138,991	138,620	371
Elementary	920,893	857,405	851,140	6,265
Secondary	1,085,989	1,183,937	1,180,933	3,004
Compensatory education	298,445	323,995	305,976	18,019
Vocational education	107,580	167,337	173,857	(6,520)
Special education	366,805	408,894	408,331	563
Total instruction	<u>2,902,169</u>	<u>3,080,559</u>	<u>3,058,857</u>	<u>21,702</u>
Supporting services				
Truance/absenteeism services	1,200	1,200	861	339
Guidance services	53,209	55,999	52,670	3,329
Other pupil support services	6,300	15,259	15,002	257
Academic student assessment	38,544	37,294	36,653	641
Improvement of instruction	11,517	14,925	13,445	1,480
Library	6,451	3,630	3,380	250
Instructional related technology	42,255	43,662	41,273	2,389
Supervision and direction of instructional staff	36,144	36,144	36,143	1
Board of education	37,526	47,199	41,936	5,263
Executive and administration	235,068	239,093	234,407	4,686
School administration	361,482	361,177	358,131	3,046
Fiscal services	99,896	100,350	100,256	94
Internal services	4,000	4,300	4,292	8
Other business services	6,000	8,890	8,890	-
Operation and maintenance of plant	415,246	427,986	420,430	7,556
Pupil transportation	279,327	277,333	267,432	9,901
Support services - Central	77,630	83,665	81,788	1,877
Athletics	160,964	168,230	168,230	-
Total supporting services	<u>1,872,759</u>	<u>1,926,336</u>	<u>1,885,219</u>	<u>41,117</u>
Community services	4,914	5,865	4,676	1,189
TOTAL EXPENDITURES	<u>4,779,842</u>	<u>5,012,760</u>	<u>4,948,752</u>	<u>64,008</u>

(Continued)

NORTH HURON SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2018

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(40,274)</u>	<u>(286,859)</u>	<u>(243,339)</u>	<u>43,520</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	-	45	45	-
Indirect costs	10,000	10,000	10,000	-
Operating transfers in	3,835	-	-	-
Operating transfers to other funds	-	(49,036)	(41,036)	8,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>13,835</u>	<u>(38,991)</u>	<u>(30,991)</u>	<u>8,000</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(26,439)</u>	<u>(325,850)</u>	<u>(274,330)</u>	<u>51,520</u>
FUND BALANCE - JULY 1	1,772,432	1,772,432	1,772,432	-
FUND BALANCE - JUNE 30	<u>\$ 1,745,993</u>	<u>\$ 1,446,582</u>	<u>\$ 1,498,102</u>	<u>\$ 51,520</u>

NORTH HURON SCHOOLS

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

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUE:				
Local sources:				
Student and adult lunches	\$ 75,900	\$ 67,468	\$ 67,688	\$ 220
Miscellaneous	501	57	56	(1)
Total local sources	<u>76,401</u>	<u>67,525</u>	<u>67,744</u>	<u>219</u>
State sources	13,094	10,745	10,745	-
Federal sources:				
Reimbursements	153,000	141,297	141,299	2
Commodities	15,000	13,138	13,138	-
TOTAL REVENUE	<u>257,495</u>	<u>232,705</u>	<u>232,926</u>	<u>221</u>
EXPENDITURES:				
Salaries and wages	67,636	67,092	67,150	(58)
Employee benefits	49,354	48,353	48,349	4
Food	124,506	110,263	108,160	2,103
Supplies and equipment	5,040	5,547	5,547	-
Purchased services	2,550	2,460	2,460	-
Repairs	500	1,294	1,294	-
Miscellaneous	2,538	2,463	2,463	-
TOTAL EXPENDITURES	<u>252,124</u>	<u>237,472</u>	<u>235,423</u>	<u>2,049</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>5,371</u>	<u>(4,767)</u>	<u>(2,497)</u>	<u>2,270</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	425	36	36	-
Indirect costs	(10,000)	(10,000)	(10,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(9,575)</u>	<u>(9,964)</u>	<u>(9,964)</u>	<u>-</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(4,204)</u>	<u>(14,731)</u>	<u>(12,461)</u>	<u>2,270</u>
FUND BALANCE - JULY 1	60,372	60,372	60,372	-
FUND BALANCE - JUNE 30	<u>\$ 56,168</u>	<u>\$ 45,641</u>	<u>\$ 47,911</u>	<u>\$ 2,270</u>

NORTH HURON SCHOOLS

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.02484%	0.02512%	0.02387%	0.02132%
Reporting unit's proportionate share of net pension liability	\$ 6,438,035	\$ 6,266,656	\$ 5,829,025	\$ 4,695,506
Reporting unit's covered-employee payroll	\$ 2,071,039	\$ 2,151,076	\$ 2,014,400	\$ 1,991,568
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	310.86%	291.33%	289.37%	235.77%
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	64.21%	63.27%	63.17%	66.20%

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

NORTH HURON SCHOOLS

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 595,218	\$ 597,644	\$ 493,861	\$ 424,168
Contributions in relation to statutorily required contributions	595,218	597,644	493,861	424,168
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 2,086,350	\$ 2,070,540	\$ 2,124,602	\$ 2,118,126
Contributions as a percentage of covered- employee payroll	28.53%	28.86%	23.24%	20.03%

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

NORTH HURON 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>
Reporting unit's proportion of net OPEB liability (%)	0.02498%
Reporting unit's proportionate share of net OPEB liability	\$ 2,212,478
Reporting unit's covered-employee payroll	\$ 2,071,039
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll (%)	106.83%
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)	36.39%

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

NORTH HURON SCHOOLS

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

	<u>2018</u>
Statutorily required contributions	\$ 131,239
Contributions in relation to statutorily required contributions	131,239
Contribution deficiency (excess)	<u><u>\$ -</u></u>
Reporting unit's covered-employee payroll	\$ 2,086,350
Contributions as a percentage of covered- employee payroll	6.29%

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

NORTH HURON SCHOOLS

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018**

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

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

ADDITIONAL SUPPLEMENTARY INFORMATION

NORTH HURON SCHOOLS

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

	COMMUNITY <u>SERVICE</u>	<u>LIBRARY</u>	TOTAL NONMAJOR GOVERNMENTAL <u>FUNDS</u>
<u>ASSETS</u>			
CURRENT ASSETS:			
Investments	\$ -	\$226,259	\$ 226,259
Accounts receivable	7,201	-	7,201
Due from other funds	134,949	-	134,949
TOTAL ASSETS	<u>\$142,150</u>	<u>\$226,259</u>	<u>\$ 368,409</u>
<u>LIABILITIES AND FUND BALANCES</u>			
LIABILITIES:			
Accounts payable	\$ 8,277	\$ -	\$ 8,277
Unearned revenue	60	-	60
Due to other funds	133,056	39,800	172,856
TOTAL LIABILITIES	<u>141,393</u>	<u>39,800</u>	<u>181,193</u>
FUND BALANCES	757	186,459	187,216
TOTAL LIABILITIES AND FUND BALANCES	<u>\$142,150</u>	<u>\$226,259</u>	<u>\$ 368,409</u>

NORTH HURON SCHOOLS

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018**

	<u>COMMUNITY SERVICE</u>	<u>LIBRARY</u>	<u>CAPITAL PROJECTS</u>	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUE:				
Local sources:				
Interest	\$ -	\$ 3,098	\$ 90	\$ 3,188
Community services	76,384	-	-	76,384
TOTAL REVENUE	<u>76,384</u>	<u>3,098</u>	<u>90</u>	<u>79,572</u>
EXPENDITURES:				
Community services	116,867	-	-	116,867
Capital projects	-	-	28,449	28,449
TOTAL EXPENDITURES	<u>116,867</u>	<u>-</u>	<u>28,449</u>	<u>145,316</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(40,483)</u>	<u>3,098</u>	<u>(28,359)</u>	<u>(65,744)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	41,000	-	-	41,000
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>517</u>	<u>3,098</u>	<u>(28,359)</u>	<u>(24,744)</u>
FUND BALANCE - JULY 1	240	183,361	28,359	211,960
FUND BALANCE - JUNE 30	<u>\$ 757</u>	<u>\$ 186,459</u>	<u>\$ -</u>	<u>\$ 187,216</u>

NORTH HURON SCHOOLS

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN
FUND BALANCE - DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2018**

	<u>NORTH HURON DEBT FUND</u>	<u>PORT HOPE COMMUNITY SCHOOL DEBT FUND</u>	<u>TOTAL DEBT FUNDS</u>
<u>REVENUE:</u>			
Local sources:			
Taxes	\$ 837,538	\$ 285,188	\$ 1,122,726
Interest	1,198	493	1,691
TOTAL REVENUE	<u>838,736</u>	<u>285,681</u>	<u>1,124,417</u>
<u>EXPENDITURES:</u>			
Debt service:			
Principal repayment	715,000	215,000	930,000
Interest and fiscal charges	43,955	33,200	77,155
TOTAL EXPENDITURES	<u>758,955</u>	<u>248,200</u>	<u>1,007,155</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>79,781</u>	<u>37,481</u>	<u>117,262</u>
FUND BALANCE - JULY 1	110,802	-	110,802
FUND BALANCE - JUNE 30	<u>\$ 190,583</u>	<u>\$ 37,481</u>	<u>\$ 228,064</u>

NORTH HURON SCHOOLS
SCHEDULE OF BONDED DEBT
2014 SCHOOL TECHNOLOGY BONDS
JUNE 30, 2018

Fiscal	Interest	Interest due		Principal	Total due
Years Ending		Rate	1-Nov	1-May	1-May
<u>June 30,</u>					<u>Annually</u>
2019	2.200%	\$ 7,668	\$ 7,668	\$ 225,000	\$ 240,336
2020	2.353%	5,530	5,530	230,000	241,060
2021	2.500%	<u>3,000</u>	<u>3,000</u>	<u>240,000</u>	<u>246,000</u>
Total		<u>\$ 16,198</u>	<u>\$ 16,198</u>	<u>\$ 695,000</u>	<u>\$ 727,396</u>

Bonds in the amount of \$750,000 were issued for the purpose of technology improvements.

**NORTH HURON SCHOOLS
PORT HOPE COMMUNITY SCHOOL DEBT**

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

Fiscal Years Ending	Interest Rate	Interest due		Principal	Total due
<u>June 30,</u>		<u>1-Nov</u>	<u>1-May</u>	<u>1-May</u>	<u>Annually</u>
2019	2.000%	\$ 14,200	\$ 14,200	\$ 215,000	\$ 243,400
2020	2.000%	12,050	12,050	215,000	239,100
2021	2.000%	9,900	9,900	220,000	239,800
2022	2.000%	7,700	7,700	225,000	240,400
2023	2.000%	5,450	5,450	230,000	240,900
2024	3.000%	3,150	3,150	210,000	216,300
Total		<u>\$ 52,450</u>	<u>\$ 52,450</u>	<u>\$ 1,315,000</u>	<u>\$ 1,419,900</u>

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

**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
North Huron Schools
Kinde, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Huron Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise North Huron School's basic financial statements, and have issued our report thereon dated October 3, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Nietzke & Faupel P.C.
NIETZKE & FAUPEL, P.C.
Pigeon, Michigan

October 3, 2018