

**FRANKENMUTH SCHOOL DISTRICT**  
**Frankenmuth, Michigan**

**FINANCIAL STATEMENTS**  
**June 30, 2018**



**Gardner | Provenzano**  
**Thomas & Luplow**

CERTIFIED PUBLIC ACCOUNTANTS

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**Gardner | Provenzano  
Thomas & Luplow**

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
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## INDEPENDENT AUDITOR'S REPORT

October 20, 2018

To the Board of Education  
Frankenmuth School District  
Frankenmuth, Michigan

### **Report of the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of Frankenmuth School District as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Frankenmuth School 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 of material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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

### **Opinions**

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

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

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

### **Other Matters**

#### *Required Supplementary Information*

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

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Frankenmuth School District's basic financial statements. The schedule of bonded indebtedness is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of outstanding bonded indebtedness is the responsibility of management and was derived from and relate 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

To the Board of Education  
Frankenmuth School District  
Page Three

the underlying accounting and other records used to prepare the basic financial statements or 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 schedule of bonded indebtedness is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2018 on our consideration of the Frankenmuth School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Frankenmuth School District's internal control over financial reporting and compliance.

*Gardner, Proroyame, Thomas & Luplow, P.C.*

Certified Public Accountants

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## FRANKENMUTH SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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This section of the annual financial report presents management's discussion and analysis of Frankenmuth School District's performance during the fiscal year ending June 30, 2018. Please read this along with the financial statements that follow for a comprehensive understanding of the financial position of the School District.

For the year ended June 30, 2018 Frankenmuth School District 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.

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

### **Annual Report**

The annual report consists of our Management's Discussion and Analysis, a series of financial statements, notes to those statements, required supplemental information and other supplemental information. The financial statements are divided into two sections. The District-Wide Financial Statements provide information about the activities of the School District as a whole. They present a year-end aggregate view and a longer-term view of the District's finances. All funds, capital assets and debt are combined. The fund financial statements provide more detail showing the year's activity by fund. They also show the amount available to finance future programs. Fund statements do not include long-term items such as capital assets or long-term debt.

### **District-Wide Financial Statements**

The District-wide financial statements appear first in the financial statements. They present information on the School District as a whole. They show net position and a statement of activities for the year. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Net position, the difference between assets and liabilities, are one way of measuring the financial health of the School District. In the statement of activities, the revenues less the expenses result in an increase or decrease in the net position. Increases or decreases in net position, over time, affect the financial health of the District. However, the goal of the School District is to provide quality education and a safe environment, not to make a profit.

The statement of activities covers all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid, and State and Federal grants finance most of these activities.

FRANKENMUTH SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds instead of the School District as a whole. Some funds are required to be established by State law and by bond covenants. Many of the other funds are created to help control and manage money for a particular purpose or to meet legal responsibilities for certain taxes, grants, and other money. The governmental funds of the School District focus on showing how money flows into and out of funds and the balances left at year-end. They provide a detailed, short-term view of the operations and services of the School District. This helps determine whether more or fewer financial resources are available for future programs. An accounting method called modified accrual accounting is used in fund accounting. This method measures cash and all other financial assets that can readily be converted to cash.

The relationship between governmental activities (District-Wide Financial Statements) and governmental fund activities (Fund Financial Statements) will be reconciled later in the report.

**Agency Accounts**

The School District acts as an agent for various student activity funds. This net position is reported in a separate statement. We exclude this net position statement from the School District's other financial statements because we cannot use these assets to finance our operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.



FRANKENMUTH SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**Summary of District-Wide Financial Statement**

The following table 1 provides a summary of our net position as of June 30, 2018 and 2017. They represent the School District as a whole.

Assets	2018	2017
Current and other assets	\$ 6,980,145	\$ 6,751,449
Capital assets - Net of accumulated depreciation	16,561,315	16,127,478
Total Assets	23,541,460	22,878,927
Deferred outflows of resources	4,426,446	2,657,011
Liabilities		
Current liabilities	2,508,946	2,336,359
Long-term liabilities	26,188,910	19,544,298
Total Liabilities	28,697,856	21,880,657
Deferred inflows of resources	1,449,441	430,087
Net position		
Net investment in capital assets	14,281,315	12,742,478
Restricted for debt service	114,170	146,636
Restricted for capital projects	968,252	815,059
Unrestricted	(17,543,128)	(10,478,979)
Total Net Position	\$ (2,179,391)	\$ 3,225,194

The change in net position for the 2017-2018 and 2016-2017 years is presented and discussed below in Table 2.

Current assets include cash and receivables that will be realized in cash or consumed within the upcoming school year. Net investment in capital assets is the original cost of the assets and subtracting the depreciation and any related debt. Current liabilities include accounts and salaries payable whose liquidation is reasonably expected to require use of current assets. Long-term liabilities include general obligation bonds used to finance acquisition of capital assets and accrued compensated absences. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Long-term liabilities also include the District's net proportionate share of the Michigan Public School Employee's pension obligation and OPEB liability. Deferred outflows and inflows are related to the pension and OPEB transactions. Restricted net position are reported to show legal constraints that limit use of some of the assets. Debt covenants and legislation limit the School District's ability to use those net position for day-to-day operations.

FRANKENMUTH SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**Fund Financial Statements (continued)**

The unrestricted net position represents the accumulated results of all past years' activities. This amount will be affected by the year-to-year combined operations. The summary of this year's and the previous year's activities for the School District as a whole are reported below.

	<u>2018</u>	<u>2017</u>
Revenue		
Program revenue		
Charges for services	\$ 1,037,504	\$ 982,789
Grants and categoricals	1,837,747	1,807,145
General revenue		
Property taxes	5,228,708	5,245,722
State foundation allowance	6,872,693	6,713,961
Other	190,719	175,222
Total Revenue	<u>15,167,371</u>	<u>14,924,839</u>
Function/Program expenses		
Instruction	7,637,688	7,061,335
Support services	4,261,277	4,078,130
Community services	519,144	436,076
Food services	521,836	514,218
Athletics	496,220	480,095
Interest & misc. expense on long-term debt	55,493	74,165
Depreciation (unallocated)	620,496	585,386
Total Expenses	<u>14,112,154</u>	<u>13,229,405</u>
Increase (decrease) in Net Position	<u>\$ 1,055,217</u>	<u>\$ 1,695,434</u>

Net position increased \$1,055,217 for the year ended June 30, 2018 as opposed to an increase of \$1,695,434 in the previous year.

Revenues increased \$242,532 over the previous year with the largest increase in State foundation allowance.

Expenses increased \$882,749 over the previous year with most of the increase in instruction and support services.

Funding for the above activities comes from a variety of sources. Some activities are partially funded by those who benefit from the programs or by grants and categoricals from governments and organizations. The remaining activities are paid for from taxes, State Foundation Allowance, and other revenues, such as interest.

The change in net position differs from the change in fund balance because of different accounting requirements. A reconciliation appears later in the financial statements.

FRANKENMUTH SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**Actual vs. Final Budget**

**General Operations Fund**

The District's fund balance at year end was \$4,485,213 preserving the District's set parameters for minimum fund balance of \$4,000,000. The analysis of our final budget position in June and the results of governmental activities for the year were within reason (9% projected use of reserve funds versus a 1.5% actual decrease in reserve funds, with a net of \$353,328 better than final projections).

**Food Service**

The food service fund balance at year end is \$31,737, which is an increase in reserves of \$17,921. At this time the District has made the decision to not transfer the allowable cost to the general fund, but will continue to evaluate.

**Debt Service**

Our end of the year fund balance for debt service was \$114,170. It is projected that our recent re-finance and stabilization of the housing market will allow us to continue to reduce the mills requested each year until the maturation of our capital projects bond in 2020. Our rate request for winter of 2018 is 2.20 a reduction of .06 mills from the prior year. The District will continue to work with our financial advisor to evaluate future rates and the necessary debt service fund balance. All principal and interest payments were made by the due dates this fiscal year.

**Capital Projects Fund**

As anticipated, this fund saw an increase in fund balance of \$153,193. This was due to project not completed before year-end, meaning those funds are allocated for future projects. The summer of 2018 saw a majority of that increase spent on parking lot improvements in the amount of \$781,215. The summer of 2019 our focus will be improvements at our elementary building with a budget of \$875,000.

**Final Budget vs. Original Budget**

The final to original budget comparison has minimal variances to note. We, each year, establish a budget prior to July 1<sup>st</sup> in order to meet our legal requirement. This first budget is established with known and projected data. This past year the District had two budget amendments to address changes as they occur.

Revenue for the final budget was increased by \$158,355 with most of the increased in state revenue.

FRANKENMUTH SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**Final Budget vs. Original Budget (continued)**

Expenditures were increased by \$434,822 from the first to the final budget. There were two expenditure significant budget increases. Operations and maintenance expenditures were increased 10% or \$116,053 in the final budget. Purchase services were increased in the amount of \$68,000 which was needed for landscaping, mowing, snow removal and the installation of sprinkler system and water house. There was also an increase in building repair in the amount of \$53,000 that included doors, a PA system, and electrical panel boxes. The need for added services is also due to the fact that we have a lean custodial and maintenance staff. The second significant increase in the final budget was \$181,796 in basic programs with many increases and decrease in line items none of which management feels individually was significant.

**Final Budget vs. Actual Results**

This difference between final projected budget and actual can be attributed to the ability of the District to reduce budgeted spending by \$79,991 and actual revenues coming in \$273,337 better than budget.

Revenue was 2.2% better than the final budget for several reasons. Local revenue came in approximately 8% or \$282,263 better than the final budget with the most significant variances as follows:

Little Eagle program	\$46,608
Contributions	\$43,640
Tuition from other schools	\$40,645
Tax collects	\$39,127
Preschool	\$22,604

The District continues to work to reduce expenditures seeing amounts under budget in most functions from final budget to actual.

FRANKENMUTH SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**Capital Assets**

As of June 30, 2018 the School District had \$16,561,315 in capital assets less depreciation.

	<u>2018</u>	<u>2017</u>
Land	\$ 1,091,665	\$ 1,091,665
Construction in progress	176,014	376,366
Buildings and improvements	23,625,721	22,531,783
Site improvements	963,598	963,598
Buses and other vehicles	1,000,839	933,839
Furniture and equipment	<u>1,543,092</u>	<u>1,449,345</u>
Total Capital Assets	28,400,929	27,346,596
Less accumulated depreciation	<u>11,839,614</u>	<u>11,219,118</u>
Net Capital Assets	<u>\$ 16,561,315</u>	<u>\$ 16,127,478</u>

The District purchased a new bus, weight room training equipment and other furniture and equipment.

**Debt**

	<u>2018</u>	<u>2017</u>
Governmental Activities		
2015 Refunding bonds	\$ 2,280,000	\$ 3,385,000
Accrued compensated absences	<u>114,766</u>	<u>82,832</u>
Totals	<u>\$ 2,394,766</u>	<u>\$ 3,467,832</u>

As of June 30, 2018 the School District had \$2,280,000 in General Obligation Bonds outstanding versus \$3,385,000 in the previous year – a change of about 33%. At this time, the District has no plans to issue any new debt.

The State limits the amount of general obligation debt that schools can issue to 15% of the assessed value of all taxable property within the School District's boundaries. If the School District issued "qualified debt," such obligations are not subject to this debt limit. The School District has no unqualified general obligation debt. Other obligations included employee-compensated absences. The notes to the financial statements contain detailed information on long-term liabilities.

## **Economic Conditions Affecting Next Year's Budget**

### **General Fund**

When setting a budget for upcoming the year, the District looks at many factors. The three main factors are student enrollment, labor costs, and taxable values. We have been able to maintain a 1% increase in enrollment each of the last three years with the 2018-2019 fiscal year budgeted for 1,300 FTE's. At last count, we have met that number. We are cautious to continue with enrollment growth because of the expenditures associated; such as staff capacity and infrastructure needs and have created a pupil vs staffing plan for the future. The District's philosophy is to maintain current enrollment through our continued school of choice process. Currently 25% of our enrollment is school of choice and we continue to have a wait list during our enrollment period. Local property values have had a stable increase with projections showing continued steady growth and allowing similar projections for all of our local sources.

The projection for the 2018-19 initial budget is to spend down reserves in the amount of \$157,583. Adjusting the budget to reflect the 2018 actual fund balance, we will be above our board requested \$4,000,000 target projecting a fund balance at the end of the 18-19 fiscal year in the amount of \$4,327,630. The 2018-2019 budget reflects our projected enrollment FTE of 1300 and a \$52 increase in foundation to \$7,961. We will be negotiating wage and health care with our Teacher Association in November which may have an impact on final budget.

### **Food Service**

Budget projections for food service are for a slight increase in fund balance in the amount of \$2,301. This is based on a federally regulated increase in lunch prices this year. Expenditures for food are expected to increase 2% due to both a price increase and increased need due to enrollment. We do not have any expected non-food purchases of any significance this year. The breakfast program was approved to continue but will again be monitored to measure return and participation. This year we will again evaluate a transfer to the general fund to cover allowable costs, but those costs were not a part of the initial budget approved.

### **Capital Projects Fund**

We currently operate with two separate community approved building and site millages one being .5 and the other 1.5 mills. The total projected revenue of both is approximately \$1,017,235 for fiscal year 2018-2019. The first collection of the additional millage was in the spring of 2016 which was from the winter tax collection of 2015. The last collection of the additional millage will be in the spring of 2020. Based on our five year plan these funds are allocated to address our site improvement needs with the summer of 2019 focusing on improvements at our elementary building with a budget of \$875,000.

FRANKENMUTH SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**Debt Service**

The debt service account ended with a fund balance of \$114,170. We are in the fourth year of a District refinance of our \$5,595,000 bond at a true interest cost of 1.669736%. There are two years of principal and interest payments remaining through fiscal year 2020. The requested millage rate for 2018 was 2.20 mills or \$1,121,105 expected tax revenue. This revenue combined with our fund balance will be sufficient to make our principal and interest payments. Stable housing sales and historical tax collection rates gives us confidence for our projected revenues which allow for timely payments. Continued monitoring of the debt service fund balance with assistance of our financial advisor will assure we maintain a reserve of 2%-4% to assure payment and also to close out the bond at maturity properly. At this time, the District is also exploring renewal of the bond.

**Contacting the School District's Financial Management**

If you have questions regarding this report, please contact the Superintendent's office, 525 E. Genesee St., Frankenmuth, Michigan 48734.

FRANKENMUTH SCHOOL DISTRICT  
DISTRICT-WIDE STATEMENT OF NET POSITION  
JUNE 30, 2018

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 5,238,436
Due from other governmental units	1,513,936
Other receivables	16,543
Prepays	203,125
Inventories	8,105
Capital assets less accumulated depreciation	16,561,315
Total Assets	<u>23,541,460</u>
Deferred outflows of resources-OPEB	361,974
Deferred outflows of resources-related to pension liability	4,064,472
Total Deferred Outflows	<u>4,426,446</u>
Liabilities	
Current liabilities	
Accounts payable	328,952
Accrued interest	3,173
Salaries payable	871,190
Due to other governments	135,697
Unavailable revenue	44,934
Bonds payable, due within one year	1,125,000
Long-term liabilities	
Bonds payable, due in more than one year	1,155,000
Compensated absences, due in more than one year	114,766
Net OPEB liability	6,378,381
Net pension liability	18,540,763
Total Liabilities	<u>28,697,856</u>
Deferred inflows of resources-related to OPEB	215,636
Deferred inflows of resources-related to pension liability	1,233,805
Total Deferred Inflows	<u>1,449,441</u>
Net Position	
Net investment in capital assets	14,281,315
Restricted for debt service	114,170
Restricted for capital projects	968,252
Unrestricted	(17,543,128)
Total Net Position	<u>\$ (2,179,391)</u>

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



FRANKENMUTH SCHOOL DISTRICT  
DISTRICT-WIDE STATEMENT OF NET POSITION  
JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Instruction	\$ 7,637,688	\$ 24,110	\$ 891,086	\$ (6,722,492)
Support services	4,261,277	-	750,480	(3,510,797)
Community services	519,144	540,414	-	21,270
Food services	521,836	334,755	196,181	9,100
Athletics	496,220	138,225	-	(357,995)
Interest & misc. expense on long-term debt	55,493	-	-	(55,493)
Depreciation (unallocated)	620,496	-	-	(620,496)
Totals	<u>\$ 14,112,154</u>	<u>\$ 1,037,504</u>	<u>\$ 1,837,747</u>	<u>(11,236,903)</u>
General revenues:				
Taxes:				
Property taxes levied for general purposes				3,085,304
Property taxes levied for capital projects				1,018,890
Property taxes levied for debt service				1,124,514
State aid - unrestricted				6,872,693
Interest				31,770
Other				158,949
Total General Revenues				<u>12,292,120</u>
Change in Net Position				<u>1,055,217</u>
Net Position - Beginning of Year-Restated				<u>(3,234,608)</u>
Net Position - End of Year				<u>\$ (2,179,391)</u>

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

FRANKENMUTH SCHOOL DISTRICT  
GOVERNMENTAL FUNDS BALANCE SHEET  
JUNE 30, 2018

	General	Non-Major Fund Food Service	Non-Major Fund Debt Service	Capital Projects	Totals
<u>Assets</u>					
Cash and cash equivalents	\$ 3,828,411	\$ 102,462	\$ 96,055	\$ 1,211,508	\$ 5,238,436
Due from other governmental units	1,510,677	3,259	-	-	1,513,936
Other receivables	16,543	-	-	-	16,543
Prepaid expenditures	203,125	-	-	-	203,125
Due from other funds	233,313	-	18,115	24,022	275,450
Inventory	1,973	6,132	-	-	8,105
Total Assets	<u>\$ 5,794,042</u>	<u>\$ 111,853</u>	<u>\$ 114,170</u>	<u>\$ 1,235,530</u>	<u>\$ 7,255,595</u>
<u>Liabilities</u>					
Accounts payable	\$ 218,107	\$ 4,513	\$ -	\$ 106,332	\$ 328,952
Accrued salaries	867,954	3,236	-	-	871,190
Due to other governments	135,697	-	-	-	135,697
Due to other funds	42,137	72,367	-	160,946	275,450
Unavailable revenue	44,934	-	-	-	44,934
Total Liabilities	<u>1,308,829</u>	<u>80,116</u>	<u>-</u>	<u>267,278</u>	<u>1,656,223</u>
Fund Balance					
Nonspendable:					
Prepaid expenditures	203,125	-	-	-	203,125
Inventory	1,973	6,132	-	-	8,105
Restricted:					
Capital projects	-	-	-	968,252	968,252
Debt service	-	-	114,170	-	114,170
Assigned	157,583	25,605	-	-	183,188
Unassigned	4,122,532	-	-	-	4,122,532
Total Fund Balance	<u>4,485,213</u>	<u>31,737</u>	<u>114,170</u>	<u>968,252</u>	<u>5,599,372</u>
Total Liabilities, and and Fund Balance	<u>\$ 5,794,042</u>	<u>\$ 111,853</u>	<u>\$ 114,170</u>	<u>\$ 1,235,530</u>	<u>\$ 7,255,595</u>

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

FRANKENMUTH SCHOOL DISTRICT  
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL  
FUNDS TO DISTRICT-WIDE STATEMENT OF NET POSITION  
JUNE 30, 2018

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Total Fund Balances - Governmental Funds	\$ 5,599,372
Amounts reported for governmental activities in the statement of net position are different because:	
Deferred outflows of resources-related to pension	4,064,472
Deferred outflows of resources-related to OPEB	361,974
Deferred inflows of resources-related to pension	(1,233,805)
Deferred inflows of resources-related to OPEB	(215,636)
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
The cost of the capital assets is	28,400,929
Accumulated depreciation is	(11,839,614)
Accrued interest is not reported at the fund level	(3,173)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(2,280,000)
Compensated absences	(114,766)
Net pension liability	(18,540,763)
Net OPEB liability	(6,378,381)
Total Net Position - Governmental Activities (District Wide)	<u>\$ (2,179,391)</u>

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

FRANKENMUTH SCHOOL DISTRICT  
GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2018

	General	Non-Major Fund Food Service	Non-Major Fund Debt Service	Capital Projects	Totals
Revenue					
Local	\$ 3,915,386	\$ 335,413	\$ 1,126,568	\$ 1,023,402	\$ 6,400,769
State	8,239,579	20,315	2,996	-	8,262,890
Federal	271,685	175,866	-	-	447,551
Total Revenue	<u>12,426,650</u>	<u>531,594</u>	<u>1,129,564</u>	<u>1,023,402</u>	<u>15,111,210</u>
Expenditures					
Instruction					
Basic programs	6,522,554	-	-	-	6,522,554
Added needs	747,565	-	-	-	747,565
Support services					
Instructional staff	830,695	-	-	-	830,695
General administration	337,292	-	-	-	337,292
School administration	819,451	-	-	-	819,451
Business	252,430	-	-	-	252,430
Operation and maintenance	1,245,947	-	-	-	1,245,947
Pupil transportation services	403,843	-	-	-	403,843
Central services	360,610	-	-	-	360,610
Prior period adjustment	35,216	-	-	-	35,216
Community services	209,950	-	-	-	209,950
Custody and care of children	289,211	-	-	-	289,211
Non-public school pupils	13,787	-	-	-	13,787
Facilities acquisitions	-	-	-	870,209	870,209
Debt Service	-	-	1,162,030	-	1,162,030
Food services	-	513,873	-	-	513,873
Athletic	478,136	-	-	-	478,136
Total Expenditures	<u>12,546,687</u>	<u>513,873</u>	<u>1,162,030</u>	<u>870,209</u>	<u>15,092,799</u>
Excess (Deficiency) of Revenues over Expenditures	(120,037)	17,721	(32,466)	153,193	18,411
Other Financing Sources (Uses)					
Transfers in (out)	(200)	200	-	-	-
Other transactions	56,161	-	-	-	56,161
Total Sources (Uses)	<u>55,961</u>	<u>200</u>	<u>-</u>	<u>-</u>	<u>56,161</u>
Net Change in Fund Balances	(64,076)	17,921	(32,466)	153,193	74,572
Fund Balances - Beginning of Year	4,549,289	13,816	146,636	815,059	5,524,800
Fund Balances - End of Year	<u>\$ 4,485,213</u>	<u>\$ 31,737</u>	<u>\$ 114,170</u>	<u>\$ 968,252</u>	<u>\$ 5,599,372</u>

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

FRANKENMUTH SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
DISTRICT-WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018

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Net Change in Fund Balances - Governmental Funds	\$ 74,572
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Amounts reported for governmental activities in the statement  
of activities are different because:

Governmental funds report capital outlay as expenditures; proceeds  
as income in the statement of activities, these costs are capitalized  
and depreciated over their estimated useful lives. Losses on the  
sale of capital assets are not recognized at the fund level.

Depreciation expense	(620,496)
Capital outlay	1,054,333

The issuance of long-term debt (e.g. bonds) provides current financial  
resources to governmental funds, while the repayment of the principal  
of long-term debt consumes the current financial resources of  
governmental funds. Neither transaction has any effect on net position.

Repayment of bond principal	1,105,000
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Governmental funds do not record accrued interest

Prior year	4,710
Current year	(3,173)

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 government funds.

Pension related items	(527,795)
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In the statement of activities, certain expenses (retirement  
incentives, compensated absences) are measured by the  
amounts earned during the year. The governmental funds  
measure the financial resources used (paid).

Compensated absences	(31,934)
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Change in Net Position of Governmental Activities (District Wide)	<u>\$ 1,055,217</u>
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The accompanying notes are an integral part of these financial statements.

FRANKENMUTH SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2018

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Agency Funds

Assets

Cash, student organizations	<u>\$ 363,268</u>
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Liabilities

Due to student organizations	<u>\$ 363,268</u>
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The accompanying notes are an integral part of these financial statements.

## FRANKENMUTH SCHOOL DISTRICT NOTES TO FINANCIAL STATEMENTS

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### NOTE 1--Summary of Significant Accounting Policies

The Frankenmuth School District (the "School District") operates under an elected Board of Education and provides educational services to approximately 1,301 students, based upon the blended count.

#### A. Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

#### B. District-Wide Statements

The District-Wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the primary government. The purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District's activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to students or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

The District-Wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The District-Wide approach is focused more on the sustainability of the School District as an entity and the change in the School District's net position from the current year's activities.

FRANKENMUTH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

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NOTE 1--Summary of Significant Accounting Policies (continued)

C. Fund Financial Statements

The accounts of the School District are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following fund types are used by the School District:

Governmental Funds

The governmental fund statements are prepared using the current resources measurement focus and the modified accrual basis of accounting. The fund approach is focused on the currently available resources and changes in the currently available resources of the School District.

General Fund is the general operating fund of the School District. It is used to account for all financial resources except those that are required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The food service fund is a special revenue fund.

Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support School District programs.

The emphasis in fund financial statements is on the major funds. The School District has opted to display information for all funds without regard to the criteria for determination of major funds. With the exception of the general fund and the capital project fund, none of the current funds meet the criteria for major fund status. The School District's fiduciary funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used for activities or obligations of the government, these funds are not incorporated in the District-Wide statements.



FRANKENMUTH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

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NOTE 1--Summary of Significant Accounting Policies (continued)

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Accounting basis relates to the timing of the measurements made regardless of the measurement focus applied.

Full Accrual

The full accrual basis of accounting requires recording of revenue when earned and expenses 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, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual

The modified accrual basis recognizes revenues when they are measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, within 60 days of the end of the current fiscal year. Expenditures are still recognized when incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

E. Financial Statement Amounts

Cash

Cash includes cash on hand and demand deposits.

Investments

Investments include money market funds and are stated at fair value.

Due from Other Governments and Receivables

Due from other governmental units are payments earned but not received at year-end from other governments. Receivables consist of all revenues earned at year-end but not yet received from other customers.

Inventories

Inventories consist of expendable supplies and fuel held for the School District's use and are carried at cost using the first-in, first-out method.

FRANKENMUTH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

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NOTE 1--Summary of Significant Accounting Policies (continued)

Prepays

Prepaid amounts consist of payments for which the School District will have a future benefit and will be used up at a date beyond the current year-end.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures; therefore, actual results could differ from those estimates.

Capital Assets and Depreciation

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed, as incurred. The School District does not possess infrastructure type assets. Depreciation on all assets is provided on the straight-line method over the following estimated useful lives:

Buildings and improvements	50 years
Buses and other vehicles	8 years
Furniture and equipment	5-20 years

Due to Other Governments and Accounts Payable

Accounts payable consist of items from which the School District benefited during the current fiscal year but has not yet paid.

Salaries Payable

Salaries payable consist of amounts due on employee's contracts payable for the current fiscal year and the District's portion of payroll taxes and retirement contributions.

Long-Term Liabilities

Bonds payable are the result of long-term obligations issued for the purpose of making capital purchases and improvements or the refinancing of previously issued obligations. Compensated absences represent accumulated unpaid vacation and sick leave payable upon termination of employment. No portion of the compensated absence is believed to be current at year-end. Net pension and OPEB liabilities represent the District's proportionate share of the total liability recognized by the Michigan Public School Retirement Plan.

## FRANKENMUTH SCHOOL DISTRICT NOTES TO FINANCIAL STATEMENTS

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### NOTE 1--Summary of Significant Accounting Policies (continued)

#### Inter-fund Activity

Inter-fund activity is reported as transfers. Transfers are eliminated upon consolidation.

#### Unemployment Compensation

The School District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the School District must reimburse the Employment commission for all benefits charged against the School District. The District incurred unemployment expenditures in the amount of \$0 for the year ended June 30, 2018.

#### Property Taxes

The School District levies its property taxes on December 1, and various municipalities collect its property taxes and remit them to the School District through February. The delinquent real property taxes of the School District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the School District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

#### Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance 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 School District. For the year ended June 30, 2018 the foundation allowance was based on the average of pupil membership counts taken in September of 2017 and February of 2017.

The state portion of the foundation allowance is provided primarily by a state education property tax millage of 6 mills and an allocation portion of state sales and other taxes. The local portion of the foundation allowance is funded primarily by non-prequalified and commercial property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2017– August 2018.

FRANKENMUTH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

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NOTE 1--Summary of Significant Accounting Policies (continued)

State Categorical Revenue

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

Fund Balance

The District's fund balance classifications are as follows:

- Nonspendable – Amounts that are not in spendable form or are legally or contractually required to be maintained intact.
- Restricted – Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.
- Committed – Amounts that have been formally set aside by the Board for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board.
- Assigned – Intent to spend resources on specific purposes expressed by the Board.
- Unassigned – Amounts that are available for any purpose.

At June 30, 2018 the general fund and the food service fund had \$1,973, and \$6,132 in nonspendable fund balance for inventory, respectively. The general fund had nonspendable fund balance in the amount of \$203,125 for prepaid items and \$157,583 in assigned fund balance for a reduction in fund balance in the 2018-2019 fiscal year. The food service fund had \$25,605 in assigned fund balance for food service activities. The debt service fund and capital projects fund had restricted fund balances in the amounts of \$114,170 and \$968,252 for debt service and capital projects, respectively.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 20, 2018, which is the date the financial statements were available to be issued.

FRANKENMUTH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

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NOTE 1--Summary of Significant Accounting Policies (continued)

Deferred outflows/inflows of resources

In addition to assets, the financial statements 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. A deferred outflow is recognized for pension contributions and OPEB made after the plan's measurement date, but before the fiscal year end. The amount is amortized in the plan year in which it applies. In addition, deferred outflows are recognized for other pension items.

In addition to liabilities, the financial statements 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. Future resources yet to be recognized in relation to the pension and OPEB actuarial valuation are recognized as deferred inflows. These future resources arise from the differences in the estimates used by the actuary to calculate the pension and OPEB liabilities and the actual results. The amounts are amortized over a period determined by the actuary.

Net position flow assumption

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

Fund balance flow assumptions

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

FRANKENMUTH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

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NOTE 1--Summary of Significant Accounting Policies (continued)

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School 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.

Postemployment Benefits Other Than Pensions

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School 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.

NOTE 2--Stewardship, Compliance, and Accountability

The School District is required to adopt an annual budget before the beginning of the fiscal year for the general fund and the food service fund. The accounting basis of the budget is the modified accrual method. Following are the procedures used in establishing the budgetary data reflected in the financial statements:

1. The School District's Superintendent submits to the Board of Education a proposed budget by June 30 of each year. The budget includes proposed expenditures and the means to finance them.
2. A public hearing is conducted to obtain taxpayer comments.
3. The Superintendent is authorized to transfer budgeted amounts within functional expenditure lines as approved by the Board; however, any revisions that alter functional expenditure lines of any fund must be approved by the Board of Education.
4. Budgeted amounts shown in the supplemental information reflect amendments through June 30.

FRANKENMUTH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

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NOTE 2--Stewardship, Compliance, and Accountability (continued)

The budgetary comparison presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by June 30. Expenditures in excess of amounts budgeted are a violation of Michigan law.

State law permits districts to amend their budgets during the year. The School District budget variances are illustrated in the supplemental information.

NOTE 3--Deposits and Investments

The School District is authorized, by the State of Michigan, to deposit its fund in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The School District is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,
- c. Commercial paper – within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. Banker's acceptance of U.S. banks,
- f. Mutual funds – investments which local unit can make directly.

The FDIC insures up to \$250,000 in demand deposits; however, separately named accounts of a governmental entity in a single financial institution may not necessarily be treated as a separate deposit for the \$250,000 limitation. The NCUA insures up to \$250,000 in demand deposits. At June 30, 2018 \$5,643,642 of the School District's bank balance of \$5,957,878 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At year-end the School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total
Cash and Cash Equivalents	<u>\$ 5,238,436</u>	<u>\$ 363,268</u>	<u>\$ 5,601,704</u>

The policy of the Board is to invest surplus funds of the District.

FRANKENMUTH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 4--Capital Assets and Accumulated Depreciation

Capital asset activity of the School District was as follows:

	Balance July 1, 2017	Additions	Adjustments	Disposals	Balance June 30, 2018
Capital assets not subject to depreciation					
Land	\$ 1,091,665	\$ -	\$ -	\$ -	\$ 1,091,665
Construction in progress	376,366	176,014	(376,366)	-	176,014
Subtotals	1,468,031	176,014	(376,366)	-	1,267,679
Capital assets subject to depreciation					
Site improvements	963,598	-	-	-	963,598
Buildings and improvements	22,531,783	717,572	376,366	-	23,625,721
Buses	844,363	67,000	-	-	911,363
Vehicles	89,476	-	-	-	89,476
Furniture and equipment	1,449,345	93,747	-	-	1,543,092
Subtotals	25,878,565	878,319	376,366	-	27,133,250
Total Capital Assets	27,346,596	1,054,333	-	-	28,400,929
Accumulated depreciation					
Site improvements	235,642	37,522	-	-	273,164
Buildings and improvements	9,270,376	481,206	-	-	9,751,582
Buses	687,239	24,625	-	-	711,864
Vehicles	51,193	6,107	-	-	57,300
Furniture and equipment	974,668	71,036	-	-	1,045,704
Total Accumulated Depreciation	11,219,118	620,496	-	-	11,839,614
Total Net Capital Assets	\$ 16,127,478	\$ 433,837	\$ -	\$ -	\$ 16,561,315

Depreciation was not charged to specific activities as the School District considers its capital assets to impact multiple activities and allocation is not practical.

NOTE 5--Inter-fund – Receivables and Payables

The makeup of inter-fund balances is as follows:

Due From (receivable)		Due To (Payable)	
General fund	\$ 72,367	Food service	\$ 72,367
General fund	160,946	Capital projects	160,946
Debt service	18,115	General fund	18,115
Capital projects	24,022	General fund	24,022
	<u>\$ 275,450</u>		<u>\$ 275,450</u>

NOTE 6--Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term debts include compensated absences and retirement incentives.



FRANKENMUTH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 6--Long-Term Debt (continued)

Long-term debt activity is summarized as follows:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Current Portion
Governmental Activities					
Accrued compensated absences	\$ 82,832	\$ 32,122	\$ 188	\$ 114,766	\$ -
2017 Refunding bonds	3,385,000	-	1,105,000	2,280,000	1,125,000
Totals	<u>\$ 3,467,832</u>	<u>\$ 32,122</u>	<u>\$ 1,105,188</u>	<u>\$ 2,394,766</u>	<u>\$ 1,125,000</u>

Annual debt service requirements to maturity for the above governmental bonds are as follows:

Fiscal Year Ending	Principal	Interest	Total
2019	\$ 1,125,000	\$ 38,076	\$ 1,163,076
2020	1,155,000	19,288	1,174,288
Subtotals	<u>2,280,000</u>	<u>57,364</u>	<u>2,337,364</u>
Compensated Absences	<u>114,766</u>	<u>-</u>	<u>114,766</u>
Totals	<u>\$ 2,394,766</u>	<u>\$ 57,364</u>	<u>\$ 2,452,130</u>

For the year ended June 30, 2018 the total interest paid on bonded debt was \$56,530.

NOTE 7—Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to employees; and natural disasters. During the year, the School District carried commercial insurance for the above risks of loss.

NOTE 8--Pension Plan

The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members—eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

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 Employees' Retirement Act (1980 PA 300 as amended).

## FRANKENMUTH SCHOOL DISTRICT NOTES TO FINANCIAL STATEMENTS

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### NOTE 8--Pension Plan (continued)

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

The System's financial statements are available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

### Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. 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.

A DB plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

### Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2016 fiscal year.

FRANKENMUTH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

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NOTE 8--Pension Plan (continued)

Contributions and Funded Status (continued)

The schedule below summarizes pension contribution rates in effect for fiscal year 2017.

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0 – 4.0%	19.03%
Member Investment Plan	3.0 – 7.0%	19.03%
Pension Plus	3.0 – 6.4%	18.40%
Defined Contribution	0.0%	15.27%

Required contributions to the pension plan from the District were \$1,678,147 for the year ended September 30, 2017.

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

At June 30, 2018, the District reported a liability of \$18,540,763 for its proportionate share of the MPSERS 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 rolled forward from September 2016. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, The District's proportion was .07154569 percent, which was a decrease of .2697 percent from its proportion measured as of September 30, 2016.

FRANKENMUTH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 8--Pension Plan (continued)

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

For the year ending June 30, 2018, the District recognized pension expense of \$2,133,489. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Pension			
	<u>Source Description</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
	Differences between expected and actual experience	\$ 161,132	\$ 90,976
	Changes of assumptions	2,031,288	-
	Net difference between projected and actual earnings on pension plan investments	-	886,370
	Changes in proportion and differences between District contributions and proportionate share of contributions	1,052,643	256,459
	District contributions subsequent to the measurement date	819,409	-
	Total	<u>\$ 4,064,472</u>	<u>\$ 1,233,805</u>

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflows) and Deferred Outflows of Resources by Year  
(to be Recognized in Future Pension Expenses)

<u>Plan Year Ended</u>		
September 30, 2018	\$	549,468
September 30, 2019	\$	891,132
September 30, 2020	\$	536,707
September 30, 2021	\$	33,951

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

FRANKENMUTH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

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NOTE 8--Pension Plan (continued)

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2016
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
- MIP and Basic Plans (Non-Hybrid):	7.5%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [4.5188 for non-university employers or 1.1222 for university employers]
- Recognition period for assets in years is 5.0000

Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

FRANKENMUTH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

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NOTE 8--Pension Plan (continued)

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments 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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0%	5.6%
% Alternative Investment Pools	18.0%	8.7%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	-0.1%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.0%
Short Term Investment Pools	2.0%	-0.9%
Total	<u>100%</u>	

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

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 13.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long-term expected 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 this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these 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.

FRANKENMUTH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

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NOTE 8--Pension Plan (continued)

Sensitivity of the employer's proportionate share of the net pension liability to changes in the discount rate

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

1% Decrease (Non-Hybrid/Hybrid) 6.5% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 7.5% / 7.0%	1% Increase (Non-Hybrid/Hybrid) 8.5% / 8.0%
\$ 24,152,447	\$18,540,763	\$ 13,816,082

Michigan Public School Employees' Retirement System (MPERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR, available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

Payables to the Pension Plan

The District accrued liabilities to the System in the amount of \$216,091 associated with salary and wages recorded as liabilities at year end.

NOTE 9--Post-Retirement Benefits Other than Pension (OPEB)

Plan Description

The Michigan Public School Employees' Retirement System (System or 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. The board consists of twelve members—eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

FRANKENMUTH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

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NOTE 9--Post-Retirement Benefits Other than Pension (OPEB) (continued)

Plan Description (continued)

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

The System's financial statements are available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

Benefits Provided

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 healthcare 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. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

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.



FRANKENMUTH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

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NOTE 9--Post-Retirement Benefits Other than Pension (OPEB) (continued)

Benefits Provided (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 were deposited into their 401(k) account.

Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2017 fiscal year.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2017.

OPEB Contribution Rates

Benefit Structure	Member	Employer
Premium Subsidy	3.00%	5.91%
Personal Healthcare Fund (PHF)	0.00%	5.69%

Required contributions to the OPEB plan from The District were \$560,765 for the year ended September 30, 2017.

FRANKENMUTH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 9--Post-Retirement Benefits Other than Pension (OPEB) (continued)

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

At June 30, 2018, The District reported a liability of \$6,378,381 for its proportionate share of the MPSERS 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 rolled forward from September 2016. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was .07202757 percent, which was no change from the .07202757 percent of its proportion measured as of October 1, 2016.

For the year ending June 30, 2018, The District recognized OPEB expense of \$426,990. At June 30, 2018, The District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Source Description	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ -	\$ 67,911
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	147,725
Changes in proportion and differences between District contributions and proportionate share of contributions	1,592	-
District contributions subsequent to the measurement date	360,382	-
Total	<u>\$ 361,974</u>	<u>\$ 215,636</u>

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Deferred (Inflows) and Deferred Outflows of Resources by Year  
(to be Recognized in Future OPEB Expenses)

Plan Year Ended	
September 30, 2018	\$ (51,753)
September 30, 2019	\$ (51,753)
September 30, 2020	\$ (51,753)
September 30, 2021	\$ (51,753)
September 30, 2022	\$ (7,032)

# FRANKENMUTH SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 9--Post-Retirement Benefits Other than Pension (OPEB) (continued)

#### Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

#### Summary of Actuarial Assumptions

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	7.5%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Healthcare Cost Trend Rate:	7.5% Year 1 graded to 3.5% Year 12
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.
Other Assumptions:	
Opt Out Assumptions	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 coverages 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.

#### Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [5.4744 for non-university employers or 1.4186 for university employers]
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

FRANKENMUTH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

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NOTE 9--Post-Retirement Benefits Other than Pension (OPEB) (continued)

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0%	5.6%
% Alternative Investment Pools	18.0%	8.7%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	-0.1%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.0%
Short Term Investment Pools	2.0%	-0.9%
Total	<u>100%</u>	

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

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 11.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A 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 employer 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.

FRANKENMUTH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

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NOTE 9--Post-Retirement Benefits Other than Pension (OPEB) (continued)

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate

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

1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
\$ 7,470,927	\$6,378,381	\$ 5,451,151

Sensitivity of the District's proportionate share of the net OPEB liability to Healthcare Cost Trend Rate

The following presents the District's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the District's proportionate share of net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 6.5%	Current Healthcare Cost Trend Rate 7.5%	1% Increase 8.5%
\$ 5,401,631	\$6,378,381	\$ 7,487,412

OPEB Plan Fiduciary Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR, available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

NOTE 10--Self-Funded Insurance

The School District offers a self-insured dental plan to all full-time employees. Participants and their eligible dependents are entitled to benefits as outlined in the program booklet entitled, "Frankenmuth School District Dental Insurance Plan".

NOTE 11--Sinking Funds

The Frankenmuth School District's Capital Projects Fund-Sinking Fund records capital projects activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of section 1212(1) of the Revised School Code.

FRANKENMUTH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

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NOTE 12--Economic Dependency

The School District received approximately 57% of their revenue from the Michigan Department of Education. Due to the significance of the revenue source to the School District, the District is considered to economically dependent.

NOTE 13--Refunded Bonds

In the fiscal year ended June 30, 2015, the District issued \$5,530,000 in general obligation refunding bonds with an interest rate of 1.670%. The District issued the bonds to advance refund \$5,595,000 of outstanding series 2005 refunding bonds.

The advanced refunding reduced the total debt service payments over 5 years by \$385,913. This results in an economic gain (the difference between the present values of debt service payments on the old and new debt) of \$363,121.

NOTE 14--New Accounting Standard

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.

FRANKENMUTH SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

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NOTE 14--New Accounting Standard (continued)

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

	<u>Governmental Activities</u>
Beginning net position as previously reported June 30, 2017	\$ 3,225,194
Prior period adjustment-implementation GASB 75:	
Net OPEB	(6,727,778)
Deferred outflows-Districts contributions made during October 1, 2016 though June 30, 2017	267,976
Net Position of as July 1, 2017-restated	<u><u>\$ (3,234,608)</u></u>

## REQUIRED SUPPLEMENTAL INFORMATION



FRANKENMUTH SCHOOL DISTRICT  
BUDGETARY COMPARISON  
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund				Food Service			
	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenue								
Local	\$ 3,706,063	\$ 3,633,123	\$ 3,915,386	\$ 282,263	\$ 328,994	\$ 329,194	\$ 335,413	\$ 6,219
State	8,047,933	8,255,902	8,239,579	(16,323)	20,919	18,215	20,315	2,100
Federal	297,123	320,449	271,685	(48,764)	141,244	141,244	175,866	34,622
Incoming transfers and other transactions	-	-	56,161	56,161	-	-	200	200
Total Revenues	<u>12,051,119</u>	<u>12,209,474</u>	<u>12,482,811</u>	<u>273,337</u>	<u>491,157</u>	<u>488,653</u>	<u>531,794</u>	<u>43,141</u>
Expenditures								
Instruction								
Basic programs	6,205,240	6,387,036	6,522,554	135,518	-	-	-	-
Added needs	867,029	758,918	747,565	(11,353)	-	-	-	-
Support Services								
Instructional staff	860,531	923,845	830,695	(93,150)	-	-	-	-
General administration	343,364	351,434	337,292	(14,142)	-	-	-	-
School administration	812,527	846,768	819,451	(27,317)	-	-	-	-
Business	251,811	259,195	252,430	(6,765)	-	-	-	-
Operation and maintenance	1,169,302	1,285,355	1,245,947	(39,408)	-	-	-	-
Pupil transportation services	369,579	454,717	403,843	(50,874)	-	-	-	-
Central services	400,083	415,190	360,610	(54,580)	-	-	-	-
Community services	217,674	228,264	209,950	(18,314)	-	-	-	-
Custody and care of children	224,319	236,145	289,211	53,066	-	-	-	-
Non-public school pupils			13,787	13,787	-	-	-	-
Prior period adjustment	37,000	37,000	35,216	(1,785)	-	-	-	-
Facilities acquisition	-	-	-	-	-	-	-	-
Food service	-	-	-	-	481,610	484,696	513,873	29,177
Athletic activities	433,536	443,010	478,136	35,126	-	-	-	-
Transfers out	-	-	200	200	-	-	-	-
Total Expenditures	<u>12,191,995</u>	<u>12,626,877</u>	<u>12,546,887</u>	<u>(79,991)</u>	<u>481,610</u>	<u>484,696</u>	<u>513,873</u>	<u>29,177</u>
Excess (Deficiency) of Revenues								
Over Expenditures	(140,876)	(417,403)	(64,076)	353,328	9,547	3,957	17,921	13,964
Fund Balance - Beginning of Year	4,549,289	4,549,289	4,549,289	-	13,816	13,816	13,816	-
Fund Balance - End of Year	<u>\$ 4,408,413</u>	<u>\$ 4,131,886</u>	<u>\$ 4,485,213</u>	<u>\$ 353,327</u>	<u>\$ 23,363</u>	<u>\$ 17,773</u>	<u>\$ 31,737</u>	<u>\$ 13,964</u>

See independent auditor's report.

FRANKENMUTH SCHOOL DISTRICT  
Schedule of the District's Proportionate Share of the Net Pension Liability  
Michigan Public School Employees Retirement Plan  
(Amounts were determined as of 9/30 of each fiscal year)

	2017	2016	2015	2014
A. District's proportion of net pension liability (%)	0.07155%	0.00689%	0.06504%	0.06755%
B. District's proportionate share of net pension liability	\$18,540,763	\$17,181,466	\$15,885,527	\$14,878,387
C. District's unit's covered-employee payroll	\$6,076,791	\$6,022,655	\$5,578,315	\$5,840,933
D. District's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	305%	285%	285%	255%
E. Plan fiduciary net position as a percentage of total pension liability	64.21%	63.27%	63.17%	66.20%

Schedule of District's Contributions  
Michigan Public School Employees Retirement Plan  
(Amounts were determined as of 6/30 of each fiscal year)

	2018	2017	2016	2015
A. Statutorily required contributions	\$ 1,102,126	\$ 1,116,834	\$ 1,112,973	\$ 1,231,199
B. Contributions in relation to statutorily required contributions	1,101,682	1,116,417	1,113,256	1,227,829
C. Contribution deficiency (excess)	444	417	(283)	3,370
D. District's covered-employee payroll	\$ 6,237,789	\$ 6,009,306	\$ 5,881,054	\$ 5,806,489
E. Contributions as a percentage of covered-employee payroll	18%	19%	19%	21%

Notes to Required Supplementary Information

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.

FRANKENMUTH SCHOOL DISTRICT  
Schedule of the District's Proportionate Share of the OPEB Liability  
Michigan Public School Employees Retirement Plan  
(Amounts were determined as of 9/30 of each fiscal year)

	<u>2017</u>
A. District's proportion of net pension liability (%)	0.00720%
B. District's proportionate share of net pension liability	\$6,378,381
C. District's unit's covered-employee payroll	\$6,076,791
D. District's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	105%
E. Plan fiduciary net position as a percentage of total pension liability	36.39%

Schedule of District's Contributions  
Michigan Public School Employees Retirement Plan  
(Amounts were determined as of 6/30 of each fiscal year)

	<u>2018</u>
A. Statutorily required contributions OPEB	\$ 449,625
B. OPEB Contributions in relation to statutorily required contributions	449,181
C. Contribution deficiency (excess)	444
D. District's covered-employee payroll	\$ 6,237,789
E. OPEB Contributions as a percentage of covered-employee payroll	7.20%

Notes to Required Supplementary Information

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.

## OTHER SUPPLEMENTAL INFORMATION

FRANKENMUTH SCHOOL DISTRICT  
SCHEDULES OF OUTSTANDING BONDED INDEBTEDNESS  
JUNE 30, 2018

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2015 Refunding Bonds

\$5,530,000

Interest Rate: 1.670%

Year Ending

2018-19

2019-20

Annual Principal	Semiannual Interest Payment		Total Fiscal Year
\$ 1,125,000	\$ 19,038	\$ 19,038	\$ 1,163,076
1,155,000	9,644	9,644	1,174,288
<u>\$ 2,280,000</u>	<u>\$ 28,682</u>	<u>\$ 28,682</u>	<u>\$ 2,337,364</u>



INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

October 20, 2018

To the Board of Education  
Frankenmuth School District  
Frankenmuth, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audit 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 remaining fund information of Frankenmuth School District, as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise Frankenmuth School District's basic financial statements, and have issued our report thereon dated October 20, 2018.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

To the Board of Education  
Frankenmuth School District  
Page Two

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

### **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.

*Gardner, Proronyano, Thomas & Lupton, P.C.*

Certified Public Accountants