Fulton Schools
Middleton, Michigan

FINANCIAL STATEMENTS

June 30, 2018

Fulton Schools

Middleton, Michigan

June 30, 2018

Fulton Schools

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Fulton Schools
Middleton, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter - Change in Accounting Principle

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

As also discussed in Note K to the financial statements, Fulton Schools implemented Governmental Accounting Standards Board Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67. No. 68, and No. 73*. 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, schedules of proportionate share of net pension liability and contributions, and schedules of proportionate share of net OPEB liability and contributions as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2018, on our consideration of the 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 the District's internal control over financial reporting and compliance.

Stevens Kirinovic & Tucker, P.C.

STEVENS, KIRINOVIC & TUCKER, P.C.
Certified Public Accountants

September 7, 2018

This section of Fulton Schools' annual report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2018. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Fulton Schools, a K-12 school district located in Gratiot County, Michigan, issues its financial statements under the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Administration's Discussion and Analysis, a requirement of accounting principles generally accepted in the United States of America, is intended to be the Fulton Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2018.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Fulton Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund individually; the Special Revenue Funds, Debt Service Funds, and Capital Project Fund collectively as other nonmajor governmental funds. The remaining statement, (the statement of fiduciary net position), presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

District-Wide Financial Statements

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

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

The Statement of Net Position and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), State and Federal grants, and other local dollars finance most of these activities.

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

Fund Financial Statements

The fund level financial statements are reported on the modified accrual basis. Only those assets that are “measurable” and “available” are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education’s “Accounting Manual.” In the State of Michigan, the District’s major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, the Special Revenue (School Service) Funds which are comprised of: Food Service and Athletics, Permanent Funds, and Capital Project Funds.

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

Summary of Net Position:

The following summarizes the net position as of June 30, 2018 and 2017:

Condensed Statement of Net Position
as of June 30, 2018 and 2017

	Governmental Activities 2018	Governmental Activities 2017
Assets		
Current Assets	$ 2,907,318	$ 2,845,677
Capital Assets	3,987,683	4,138,080
Total Assets	**6,895,001**	**6,983,757**
Deferred Outflows of Resources	**3,032,074**	**2,035,510**
Liabilities		
Current Liabilities	1,628,311	1,783,774
Long-Term Liabilities	17,307,901	12,969,767
Total Liabilities	**18,936,212**	**14,753,541**
Deferred Inflows of Resources	**1,973,631**	**739,235**
Net Position		
Net investment in capital assets	3,960,532	4,138,080
Restricted	346,655	68,669
Unrestricted	(15,289,955)	(10,680,258)
Total Net Position	**$ (10,982,768)**	**$ (6,473,509)**

Analysis of Financial Position:

As detailed above, the District shows a negative total net position value of $10,982,768 for the fiscal year ended June 30, 2018. This statement has been affected by the following factors.

- A significant number of the District's capital assets are older but fortunately the debt related to the assets has declined enough annually to show positive net investment in capital assets.
- The District is able to show positive net working capital of $1,279,007 indicating that they can meet current obligations with current assets.
- By far the most significant portion of the District's net position is the negative unrestricted portion related to pensions and other post-retirement benefits. The unrestricted portion of net position increased significantly during the fiscal year as a result of the implementation of GASB Statement No. 75, as discussed in Note L.

Results of Operations:

District-wide operating results for the fiscal years ended June 30, 2018 and 2017:

Condensed Statement of Net Position
as of June 30, 2018 and 2017

	Governmental Activities 2018	Governmental Activities 2017
Revenues		
Program Revenues		
Charges for Service	$ 189,506	$ 202,259
Operating and Capital Grants	2,198,526	1,945,696
General Revenues		
Property Taxes	998,124	1,008,955
State School Aid - unrestricted	5,107,414	4,884,056
Investment Earnings	13,311	5,872
Special Education county allocation	167,111	188,867
Other	75,139	47,937
Total Revenues	**8,749,131**	**8,283,642**
Functions/Program Expenses		
Instruction	4,884,103	4,793,951
Supporting services	2,889,017	2,665,291
Community services	250,571	223,113
Food service	704,914	316,548
Other transactions	119,021	60,275
Interest on long-term debt	10,839	7,816
Unallocated depreciation	313,650	298,944
Total Expenses	**9,172,115**	**8,365,938**
(Decrease) in Net Position	**$ (422,984)**	**$ (82,296)**

Analysis of Results of Operations:

During the fiscal year ended June 30, 2018, the District's net position decreased by $422,984. Several factors which caused the decrease are discussed in the following sections.

A. **Governmental Fund Operating Results**
The District's expenditures for governmental funds operations exceeded its revenues for the fiscal year ended June 30, 2018, mainly due to the expenditures over revenues in the General Fund. Further discussion of the District's operating results is available in the section entitled "Results of 2017-2018 Operations" located on the following pages.

B. **Depreciation Expense**
The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2017-2018, district assets depreciated in the amount of $311,463.

Results of 2017-2018 Operations

A. General Fund Operations

The General Fund is the main fund for the District and includes all the costs related to educating the students of the Fulton Schools such as: Salaries and benefits for Teachers, Classroom Parapros, Administrators, Secretaries, Custodians, Maintenance staff, Librarians, Counselors, Bus Drivers and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other, as well as athletics activities.

The District's expenditures and other financing uses for General Fund operations were greater than revenues and other financing sources by $61,420 for the fiscal year ended June 30, 2018. The General Fund as of June 30, 2018, has a fund balance of $1,230,925. State and federal revenues decreased about $106,000 compared to the prior year due to a decrease in enrollment.

B. School Service (Special Revenue) Funds

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

The Food Service Fund is a fund that reports the food service program. In 2017-2018 the Food Service Fund had revenues of $331,049 and expenditures of $312,161. The Food Service Fund is supposed to be self-supporting and reimburses the General Fund for substantially all identified overhead costs associated with its operation. The Food Service Fund had a fund balance of $19,343.

C. Long-term Debt

The District's only long-term borrowing is an installment note for a vehicle that was purchased during the year.

The District had additions and principal payments from the General Fund on long-term debt obligations that reduced the amount of the District's long-term liabilities as follows:

	Principal Balance July 1, 2017	Principal Additions	Principal Deletions	Principal Balance June 30, 2018
Installment note	$ -0-	$ 29,545	$ (2,394)	$ 27,151

The District also had $308,611 in accumulated sick pay for the year ended June 30, 2018. For more details on long-term debt see Note F in the financial statements.

D. Net Investment in Capital Assets

The District's net investment in capital assets decreased by $150,397 during the fiscal year. This can be summarized as follows:

	Balance July 1, 2017	Net Change	Balance June 30, 2018
Capital assets	$ 12,133,676	$ 105,253	$ 12,238,929
Less: Accumulated depreciation	(7,995,596)	(255,650)	(8,251,246)
Net investment in capital outlay	$ 4,138,080	$ (150,397)	$ 3,987,683

See Note C for more details related to capital assets.

IMPORTANT ECONOMIC FACTORS

A. State of Michigan Unrestricted Aid (Net State Foundation Grant)

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

a. State of Michigan State Aid Act per student foundation allowance.
b. Student Enrollment - Blended at 90 percent of current year's fall count and 10 percent of prior year's winter count.
c. The District's non-homestead property valuation.

B. Per Student Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The Fulton Schools' foundation allowance was $7,631 per student for the 2017-2018 school year.

C. Student Enrollment

The District's State aid membership count for 2017-2018 was 758 students. The following summarizes the membership amounts over the past three years:

Fiscal Year	Membership	Change from Prior Year
2017-2018	758	(36)
2016-2017	794	(23)
2015-2016	817	(48)

D. Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)

The District levied 18 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sales, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's non-homestead property tax revenue for the 2017-2018 fiscal year was $546,893.

E. Property Taxes levied for Sinking Fund activities

The District levied 3 mills of property taxes for sinking fund related activities in accordance with the millage extra request voted on and approved by District taxpayers. The millage is levied on all homestead and non-homestead parcels within the District and generated $451,231 in 2017-2018.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

Listed below is an analysis of the original budget and final budget to the final actual.

General Fund Revenues and Other Sources - Budgetary Comparison

				Variances	
Fiscal Year	Original Budget	Final Budget	Actual	Actual & Original Budget	Actual & Final Budget
2017-2018	$ 7,730,857	$ 7,906,311	$ 8,104,190	4.8%	2.5%
2016-2017	8,017,059	7,971,027	7,908,818	-1.4%	-0.8%

General Fund Expenditures and Other Uses - Budgetary Comparison

				Variances	
Fiscal Year	Original Budget	Final Budget	Actual	Actual & Original Budget	Actual & Final Budget
2017-2018	$ 8,137,513	$ 7,962,811	$ 8,165,610	0.3%	2.5%
2016-2017	8,318,983	8,224,926	8,130,514	-2.3%	-1.1%

Original vs. Final Budget:

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

As a matter of practice, Fulton Schools amends its budget periodically during the school year. The June 2018 budget amendment was the final budget for the fiscal year.

General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

Total Expenditures and Other Uses - Original Budget	$ 8,137,513
Total Expenditures and Other Uses - Final Budget	7,962,811
Decrease in Budgeted Expenditures and Other Uses	$ (174,702)

The District's actual expenditures and other uses exceeded the final budget by $202,799.

Revenues and other sources Change from Original to Final Budget:

Total Revenues and Other Sources - Original Budget	$ 7,730,857
Total Revenues and Other Sources - Final Budget	7,906,311
(Decrease) in Budgeted Revenues and Other Sources	$ 175,454

The District's final actual general fund revenues and other sources were greater than the final budget by $197,879.

The final revenue and other sources budget reflected the following changes from the original budget.

- Athletic Receipts higher than expected.
- Miscellaneous Revenue higher than expected.
- State funding increased based on final student count and adjustments, primarily in alternative education.
- Federal funds increased due to higher federal spending.

Additional Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2019 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2018 fiscal year was 10 percent and 90 percent of the February 2018 and September 2017 student counts, respectively. The 2019 fiscal year budget was adopted in June 2018, based on an estimate of students that will be enrolled in September 2018. Approximately 87 percent of total General Fund revenues are from State sources. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2018-2019 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2019 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

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

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Fulton Schools, 8060 Ely Highway, Middleton, Michigan 48856.

BASIC FINANCIAL STATEMENTS

Fulton Schools

STATEMENT OF NET POSITION

June 30, 2018

	Governmental Activities
ASSETS	
Current assets	
Cash	$ 646,597
Investments	724,966
Other receivables	19,595
Due from other governmental units	1,494,103
Prepaids	3,165
Inventories	18,892
Total current assets	2,907,318
Noncurrent assets	
Capital assets not being depreciated	65,258
Capital assets, net of accumulated depreciation	3,922,425
Total noncurrent assets	3,987,683
TOTAL ASSETS	6,895,001
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	2,754,366
Deferred outflows of resources related to OPEB	277,708
Total deferred outflows of resources	3,032,074
LIABILITIES	
Current liabilities	
Accounts payable	98,465
Accrued payroll	596,544
Due to other governmental units	15,386
Short-term note payable	600,000
Current portion of compensated absences	308,611
Current portion of long-term debt	9,305
Total current liabilities	1,628,311
Noncurrent liabilities	
Noncurrent portion of long-term debt	17,846
Net pension liability	12,894,462
Net OPEB liability	4,395,593
Total noncurrent liabilities	17,307,901
TOTAL LIABILITIES	18,936,212
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	1,825,028
Deferred inflows of resources related to OPEB	148,603
Total deferred inflows of resources	1,973,631
NET POSITION	
Net investment in capital assets	3,960,532
Restricted for sinking fund activities	346,655
Unrestricted	(15,289,955)
TOTAL NET POSITION	$ (10,982,768)

See accompanying notes to financial statements.

Fulton Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenues and Changes in Net Position: Governmental Activities
Governmental activities				
Instruction	$ 4,884,103	$ 38,651	$ 1,974,219	$ (2,871,233)
Supporting services	2,889,017	44,198	-	(2,844,819)
Community services	250,571	-	-	(250,571)
Food service	704,914	106,657	224,307	(373,950)
Other transactions	119,021	-	-	(119,021)
Interest and fees on long-term debt	10,839	-	-	(10,839)
Unallocated depreciation	313,650	-	-	(313,650)
TOTAL EXPENSES	$ 9,172,115	$ 189,506	$ 2,198,526	(6,784,083)

General Revenues	
Property taxes	998,124
State aid unrestricted	5,107,414
Special education county allocation	167,111
Investment earnings	13,311
Miscellaneous	75,139
TOTAL GENERAL REVENUES	6,361,099
CHANGE IN NET POSITION	(422,984)
Restated net position, beginning of year	(10,559,784)
Net position, end of year	$ (10,982,768)

See accompanying notes to financial statements.

Fulton Schools

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2018

	General	Sinking Fund	Nonmajor Governmental Fund (Food Service)	Total
ASSETS				
Cash	$ 214,132	$ 414,945	$ 17,520	$ 646,597
Investments	724,966	-	-	724,966
Other receivables	19,595	-	-	19,595
Due from other governmental units	1,486,693	31	7,379	1,494,103
Due from other funds	24,254	-	-	24,254
Prepaids	3,165	-	-	3,165
Inventories	11,138	-	7,754	18,892
TOTAL ASSETS	$ 2,483,943	$ 414,976	$ 32,653	$ 2,931,572
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 41,088	$ 53,033	$ 4,344	$ 98,465
Accrued payroll	596,544	-	-	596,544
Due to other governmental units	15,386	-	-	15,386
Due to other funds	-	15,288	8,966	24,254
Short-term note payable	600,000	-	-	600,000
TOTAL LIABILITIES	1,253,018	68,321	13,310	1,334,649
FUND BALANCES				
Nonspendable				
Inventories	11,138	-	-	11,138
Prepaids	3,165	-	-	3,165
Restricted				
Capital projects and major repairs	-	346,655	-	346,655
Food service	-	-	19,343	19,343
Assigned				
Subsequent year's expenditures	79,267	-	-	79,267
Unassigned	1,137,355	-	-	1,137,355
TOTAL FUND BALANCES	1,230,925	346,655	19,343	1,596,923
TOTAL LIABILITIES AND FUND BALANCES	$ 2,483,943	$ 414,976	$ 32,653	$ 2,931,572

See accompanying notes to financial statements.

Fulton Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2018

Total fund balances - governmental funds		$ 1,596,923
Amounts reported for the governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		
The cost of capital assets is	$ 12,238,929	
Accumulated depreciation is	(8,251,246)	
Capital assets, net		3,987,683
Governmental funds report actual pension/OPEB expenditures for the fiscal year, whereas the governmental activities will recognize the net pension/OPEB liability as of the measurement date. Pension contributions subsequent to the measurement date, and State Aid related to pensions will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, differences between projected and actual pension plan investment earnings, and change in proportionate share of District's contributions will be deferred over time in the government-wide financial statements. These amounts consist of:		
Deferred outflows of resources related to pensions	2,754,366	
Deferred inflows of resources related to pensions	(1,825,028)	
Deferred outflows of resources related to OPEB	277,708	
Deferred inflows of resources related to OPEB	(148,603)	
		1,058,443
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Leases payable	(27,151)	
Compensated absences	(308,611)	
Net pension liability	(12,894,462)	
Net OPEB liability	(4,395,593)	
		(17,625,817)
Net position of governmental activities		$ (10,982,768)

See accompanying notes to financial statements.

Fulton Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2018

	General	Sinking Fund	Nonmajor Governmental Funds (Food Service)	Total
REVENUES				
Local sources	$ 710,415	$ 452,724	$ 106,742	$ 1,269,881
State sources	6,786,841	-	12,702	6,799,543
Federal sources	345,667	-	211,605	557,272
TOTAL REVENUES	7,842,923	452,724	331,049	8,626,696
EXPENDITURES				
Current				
Instruction	4,893,451	-	-	4,893,451
Supporting services	2,888,489	-	-	2,888,489
Community services	251,516	-	-	251,516
Food service	-	-	312,161	312,161
Capital outlay	-	174,638	-	174,638
Debt service	13,133	100	-	13,233
TOTAL EXPENDITURES	8,046,589	174,738	312,161	8,533,488
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(203,666)	277,986	18,888	93,208
OTHER FINANCING SOURCES (USES)				
Proceeds from installment note	29,545	-	-	29,545
County special education allocation	231,722	-	-	231,722
Payments to other districts	(119,021)	-	-	(119,021)
TOTAL OTHER FINANCING SOURCES (USES)	142,246	-0-	-0-	142,246
NET CHANGE IN FUND BALANCES	(61,420)	277,986	18,888	235,454
Fund balances, beginning of year	1,292,345	68,669	455	1,361,469
Fund balances, end of year	$ 1,230,925	$ 346,655	$ 19,343	$ 1,596,923

See accompanying notes to financial statements.

Fulton Schools

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

Net change in fund balances - total governmental funds		$ 235,454
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	$ 163,253	
Depreciation expense	(313,650)	
Excess of depreciation expense over capital outlay		(150,397)
Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current year, these amounts consist of:		
Long-term debt principal retirements	2,394	
Proceeds from installment note	(29,545)	
		(27,151)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in net pension liability	75,305	
Change in deferred outflows of resources related to pensions	718,856	
Change in deferred inflows of resources related to pensions	(1,085,793)	
Decrease in net OPEB liability	240,784	
Change in deferred outflows of resources related to OPEB	(272,394)	
Change in deferred inflows of resources related to OPEB	(148,603)	
(Increase) in compensated absences	(9,045)	
		(480,890)
Change in net position of governmental activities		$ (422,984)

See accompanying notes to financial statements.

Fulton Schools

STATEMENT OF ASSETS AND LIABILITIES - FIDUCIARY FUND

June 30, 2018

		Agency Fund
ASSETS		
Cash	$	88,792
LIABILITIES		
Due to		
Elementary	$	38,563
Middle School/High School		28,199
Athletic Groups		22,030
TOTAL LIABILITIES	$	88,792

See accompanying notes to financial statements.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the financial activities of Fulton Schools (primary government). The District has no activities that would be classified as component units.

Based upon the application of these criteria, the financial statements of the District contain all the funds controlled by the District.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the district-wide financial statements) present information for the district as a whole. All non-fiduciary activities of the District are included (i.e., fiduciary fund activities are not included in the district-wide financial statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major funds and aggregated nonmajor funds. A separate column is shown for the major funds on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. The fiduciary fund is reported by type.

The District presents the following major governmental funds:

a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.

b. Sinking Fund - The Sinking Fund is used to account for voter approved bond proceeds and property tax revenues used for repairs throughout the District.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The district-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the district-wide financial statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet, when applicable. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

There is no measurement focus for the fiduciary agency fund since assets equal liabilities.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned, and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Unearned revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within sixty (60) days of the end of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

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

5. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

The District does not maintain a formalized encumbrance accounting system. All unexpended appropriations lapse at fiscal year end.

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

a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.

b. Public hearings are conducted to obtain taxpayer comments.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

   c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.

   d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.

   e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.

   f. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.

   g. The budget, as presented, has been amended in a legally permissible manner.

6. Cash and Investments

Cash consist of checking and savings accounts.

Investments consist of a Michigan Liquid Asset Fund Plus (MILAF+) account which is reported at amortized cost, which approximates fair value.

7. Interfund Receivables/Payables

During the course of operations, few transactions occurred between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” and “due to other funds” on the governmental funds balance sheet.

8. Inventories

Inventories are stated at cost on a first in/first out basis. The Food Services Fund inventory consists of food and miscellaneous paper goods. Inventory that will be sold, rather than used in providing services (i.e., food in the Food Service Fund), and for which the proceeds from the sales are restricted for food service activities are not classified as “nonspendable” but instead are reflected as a component of restricted fund balance in accordance with the GASB Statement No. 54.

9. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan’s funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2018 to be paid in July and August 2018. The total amount of $1,494,103 due from other governmental units consists of $1,126,498 and $367,605 related to State Aid and grant and local programs, respectively.

10. Capital Assets

Capital assets are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an estimated useful life of more than one year.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Capital Assets - continued

Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated aquistion value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	5 - 45 years
Equipment and furniture	5 - 20 years
Vehicles	8 years
Other capital equipment	5 - 20 years

11. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

12. Accrued Interest Payable

Accrued interest is presented for the long-term obligations in the district-wide financial statements as a current liability under the appropriate heading.

13. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as noncurrent.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

14. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

The District levies taxes of $18.00 per $1,000 of taxable valuation on most nonprimary residency exempt property and $6.00 per $1,000 of taxable valuation on commercial personal property for general governmental services and $3.00 per $1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for a sinking fund. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2018, the foundation allowance was based on the average of pupil membership counts taken in September 2017 and February 2017. The average calculation was weighted 90% for the September count and 10% for the February count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead 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 nine (9) payments made during the fiscal year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

16. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received that are not expended by the close of the fiscal year are reported as deferred inflows of resources, when they are present.

17. Defined Benefit Plans

For purposes of measuring the net pension and other postemployment benefit liability, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pension and other postemployment benefits expense, information about the fiduciary net position of the Michigan Public Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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.

18. Deferred Outflows

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

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

19. Deferred Inflows

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

20. Interfund Transactions

Interfund transactions are reported as loans, services provided reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers on the governmental fund financial statements. Transfers are netted as part of the reconciliation to the district-wide financial statements.

21. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets deferred outflows of resources, liabilities, and deferred inflows of resources the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

22. Tax Abatements

The District's tax revenues have been reduced by tax abatements throughout the District. Management has determined these amounts to be immaterial to the financial statements.

23. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: DEPOSITS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.

2. Certificates of deposit issued by a State or National bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.

NOTE B: DEPOSITS - CONTINUED

3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.

5. United States government or Federal agency obligation repurchase agreements.

6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.

7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.

8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it.

As of June 30, 2018, the carrying amount of the District's deposits was $735,389 and the bank balance was $827,840, of which $251,832 was insured by Federal depository insurance.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs. There are three (3) levels of inputs that may be used to measure fair value:

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

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

Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

Investments

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy.

NOTE B: DEPOSITS - CONTINUED

Investments - continued

The District participates in the Michigan Liquid Asset Fund Plus (MILAF+), the portfolio securities are valued at amortized costs, which approximates market value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium. It is MILAF+'s policy to compare amortized cost and fair values of the securities periodically throughout each month and as of the last business day of each month. Fair value is determined by reference to quoted market prices. MILAF+'s annual financial statement may be obtained at www.milaf.org. As of June 30, 2018, the District has $724,966 invested with MILAF+.

MILAF+ portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Money market securities are valued using amortized cost, as outlined in GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities held by the MILAF+ Portfolio are categorized as Level 2.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2018, the MILAF+ investments were rated AAAm by Standard and Poor's and had a weighted average maturity (WAM) of <60 days.

Interest Rate Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk

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

As of June 30, 2018, the cash and investments referred to above have been reported in the cash and investments captions in the financial statements in the following categories:

	Governmental Activities	Fiduciary Fund	Total
Cash	$ 646,597	$ 88,792	$ 735,389
Investments	724,966	-	724,966
	$ 1,371,563	$ 88,792	$ 1,460,355

NOTE B: DEPOSITS - CONTINUED

Custodial Credit Risk - continued

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets not being depreciated				
Land	$ 12,225	$ -	$ -	$ 12,225
Construction in progress	-	53,033	-	53,033
Subtotal	12,225	53,033	-0-	65,258
Capital assets being depreciated				
Buildings and improvements	7,290,828	29,064	-	7,319,892
Equipment and furniture	3,041,223	18,656	-	3,059,879
Vehicles	1,276,875	62,500	(58,000)	1,281,375
Other	512,525	-	-	512,525
Subtotal	12,121,451	110,220	(58,000)	12,173,671
Less accumulated depreciation for:				
Buildings and improvements	(3,790,180)	(197,147)	-	(3,987,327)
Equipment and furniture	(2,755,446)	(61,242)	-	(2,816,688)
Vehicles	(1,127,757)	(45,524)	55,813	(1,117,468)
Other	(322,213)	(7,550)	-	(329,763)
Subtotal	(7,995,596)	(311,463)	55,813	(8,251,246)
Net capital assets being depreciated	4,125,855	(201,243)	(2,187)	3,922,425
Capital assets, net	$ 4,138,080	$ (148,210)	$ (2,187)	$ 3,987,683

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as “unallocated”. The current depreciation expense in the Governmental Activities of $311,463 has been adjusted by $2,187 for the disposal of capital assets during the year, in accordance with GASB Statement No. 34 implementation guide states that immaterial losses may be handled as an adjustment to the current period’s depreciation expense.

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2018, are as follows:

Due to General Fund from:		
Sinking Fund	$	15,288
Nonmajor governmental fund		8,966
	$	24,254

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2018.

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Amounts Due Within One Year
Installment note	$ -	$ 29,545	$ (2,394)	$ 27,151	$ 9,305
Compensated absences	299,566	308,611	(299,566)	308,611	308,611
	$ 299,566	$ 338,156	$ (301,960)	$ 335,762	$ 317,916

Significant details regarding outstanding long-term debt (including current portion) are presented below:

Installment Note

$29,545 installment note dated April 21, 2018, due in monthly installments of $903, including interest of 6.65%, through March 21, 2021.	$ 27,151

Compensated Absences

In recognition of services to the District, a severance payment will be made upon termination to eligible employees according to their respective employment contracts or past District practice as follows:

Teachers

Employees eligible for non-disability retirement through the Michigan Public Schools Employee Retirement System and having at least fifteen (15) years of consecutive service to the Board shall be paid a severance payment on the following schedule:

- After fifteen (15) years of service, five (5) days' salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.
- After twenty (20) years of service, ten (10) days' salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.
- After twenty-five (25) years of service, fifteen (15) days' salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

NOTE E: LONG-TERM DEBT - CONTINUED

Support Staff - Fulton Adult Alternative Independent Employee Group (FAAIEG)

Employees completing ten (10) years of service to the District and reaching age fifty (50) or above shall be paid a severance payment on the following schedule:

- After ten (10) years of service, one (1) week salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.
- After fifteen (15) years of service, two (2) weeks salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.
- After twenty (20) years of service, three (3) weeks salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.
- After twenty-five (25) years of service, four (4) weeks salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

Support Staff - Fulton Educational Support Personnel Association (FESPA)

Employees completing ten (10) years of service to the District and reaching age fifty (50) or above shall be paid a severance payment on the following schedule:

- After ten (10) years of service, one (1) week salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.
- After fifteen (15) years of service, two (2) weeks salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.
- After twenty (20) years of service, three (3) weeks salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.
- After twenty-five (25) years of service, four (4) weeks salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

District Administrators

Severance and longevity eligibility shall begin after 10 years of service as an administrator with the Fulton Schools.

- After ten (10) years of service, five (5) days of salary plus fifteen percent (15%) of unused sick leave.
- After fifteen (15) years of service, ten (10) days of salary plus fifteen percent (15%) of unused sick leave.
- After twenty (20) years of service, fifteen (15) days of salary plus fifteen percent (15%) of unused sick leave.

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The sick leave amounts for employees who currently are not vested are calculated by using total unused sick leave amounts at June 30, 2018, for all nonvested employees. The terminal leave amounts for employees who currently are not vested are calculated by taking the sum of nonvested employees' salaries for the year ended June 30, 2018, and multiplying it by the lowest years of service bracket applicable for the employee class. Both of these amounts are multiplied by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past.

NOTE E: LONG-TERM DEBT - CONTINUED

District Administrators - continued

A summary of the calculated amounts of accrued compensated absences and related payroll taxes as of June 30, 2018, which has been recorded in the district-wide financial statements, is as follows:

	Vested Employees	Nonvested Employees	Total
Compensated absences	$ 247,342	$ 39,338	$ 286,680
Payroll taxes	19,108	2,823	21,931
	$ 266,450	$ 42,161	$ 308,611

The annual requirements to pay the debt principal and interest outstanding for the installment note are as follows:

Year Ending June 30,	Installment Note Principal	Installment Note Interest
2019	$ 9,305	$ 1,525
2020	9,943	887
2021	7,903	221
	$ 27,151	$ 2,633

NOTE F: SHORT-TERM NOTES

On November 16, 2016, the District issued a Tax Anticipation Note in the amount of $800,000 for the purpose of funding operating expenditures. This short-term note, which had a net outstanding balance of $800,000 at June 30, 2017, was reported in the General Fund and in the government-wide financial statements under the caption short-term notes payable. The balance was paid on August 21, 2017.

On August 21, 2017, the District issued Tax Anticipation Notes in the amount of $1,000,000 for the purpose of funding operating expenditures. These short-term notes had interest rates ranging from 1.27% - 1.49% and the remaining installments of $600,000, which are reported in the General Fund and in the government-wide financial statements under the caption short-term notes payable.

NOTE G: RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool, with other school districts for property, liability, in-land marine, boiler and machinery, fleet, employee dishonesty, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

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

NOTE H: SINKING FUND ACTIVITY

The Capital Projects Fund of the District includes the capital projects activities funded by local millage for a sinking fund (the Sinking Fund Capital Projects Fund) and other local revenues in that fund. For the expenditures recorded within the Capital Projects Sinking Fund, the District has complied with the applicable provisions of Section 1212 (1) of the Revised School Code.

NOTE I: RETIREMENT AND POST RETIREMENT BENEFITS

Plan Description

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

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

Benefits Provided - Overall

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

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

Benefits Provided - Pension

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

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

NOTE I: RETIREMENT AND POST RETIREMENT BENEFITS - CONTINUED

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

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

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

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

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

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

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

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

Option 4: Members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to the tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 199% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and final average compensation as of the day before their transition date and a 1.5% pension factor).

NOTE I: RETIREMENT AND POST RETIREMENT BENEFITS - CONTINUED

Pension Reform 2012 - continued

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

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

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

Pension Reform of 2017

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

Benefits Provided - Other Postemployment Benefit (OPEB)

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

Retiree Healthcare Reform of 2012

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

NOTE I: RETIREMENT AND POST RETIREMENT BENEFITS - CONTINUED

Retiree Healthcare Reform of 2012 - continued

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

Regular Retirement (No Reduction Factor for Age)

Eligibility - A Basic plan member may retire at age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

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

Member Contributions

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

Employer Contributions

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

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

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

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

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

NOTE I: RETIREMENT AND POST RETIREMENT BENEFITS - CONTINUED

Employer Contributions - continued

The District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately $1,330,629, with $1,320,190 specifically for the Defined Benefit Plan.

The District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total. OPEB benefits were approximately $352,517, with $330,050 specifically for the Defined Benefit Plan.

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

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

Pension Liabilities

At June 30, 2018, the District reported a liability of $12,894,462 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017, the District's proportion was 0.04976.

MPSERS (Plan) Non-University Employers	September 30, 2017
Total Pension Liability	$ 72,407,218,688
Plan Fiduciary Net Position	46,492,967,561
Net Pension Liability	25,914,251,127
Proportionate Share	0.04976%
Net Pension Liability for the District	$ 12,894,462

For the year ended June 30, 2018, the District recognized pension expense of $1,173,065.

NOTE I: RETIREMENT AND POST RETIREMENT BENEFITS - CONTINUED

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

Pension Liabilities - continued

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 112,062	$ 63,270
Changes of assumptions	1,412,691	-
Net difference between projected and actual earnings on pension plan investments	-	616,440
Changes in proportion and differences between the District's contributions and proportionate share of contributions	80,460	642,101
State Aid related to pensions	-	503,217
District's contributions subsequent to the measurement date	1,149,153	-
Total	$ 2,754,366	$ 1,825,028

$1,149,153, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year. $503,217 reported as deferred inflows of resources under the caption “State Aid related to pensions” will be recognized as an increase to State Aid revenue during the year ending 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:

Year Ending September 30,	Amount
2018	$ 71,436
2019	275,462
2020	24,202
2021	(87,698)

NOTE I: RETIREMENT AND POST RETIREMENT BENEFITS - CONTINUED

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

OPEB Liabilities

At June 30, 2018, the District reported a liability of $4,395,593 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017, the District's proportion was 0.049637 percent.

MPSERS (Plan) Non-University Employers	September 30, 2017
Total Other Postemployment Benefit Liability	$ 13,920,945,991
Plan Fiduciary Net Position	5,065,474,936
Net Other Postemployment Benefit Liability	8,855,471,055
Proportionate Share	0.49637%
Net Other Postemployment Benefit Liability for the District	$ 4,395,593

For the year ended June 30, 2018, the District recognized OPEB expense of $294,184.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contributions and proportionate share of contributions	$ 775	$ -
Differences between expected and actual experience	-	46,800
Net differences between projected and actual plan investment earnings	-	101,803
Reporting unit's contributions subsequent to the measurement date	276,933	-
	$ 277,708	$ 148,603

$276,933, reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

NOTE I: RETIREMENT AND POST RETIREMENT BENEFITS - CONTINUED

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

OPEB Liabilities - continued

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

Year Ending September 30,	Amount
2018	$ (35,737)
2019	(35,737)
2020	(35,737)
2021	(35,737)
2022	(4,880)

Actuarial Assumptions

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

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

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

Inflation: 3.0%

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

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

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

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

Healthcare Cost Trend Rate for Other Postemployment Benefit: 7.5% for year one and graded to 3.5% to year twelve.

NOTE I: RETIREMENT AND POST RETIREMENT BENEFITS - CONTINUED

Actuarial Assumptions - continued

Additional Assumptions for Other Postemployment Benefit Only: Applies to individuals hired before September 4, 2012:

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

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

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

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

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.6%
Private Equity 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)%
	100.0%	

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

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

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

NOTE I: RETIREMENT AND POST RETIREMENT BENEFITS - CONTINUED

Actuarial Assumptions - continued

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

	Pension		
	1% Decrease (6.5% / 6.0%)	Discount Rate (7.5% / 7.0%)	1% Increase (8.5% / 8.0%)
District's proportionate share of the net pension liability	$ 16,797,196	$ 12,894,462	$ 9,608,609

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

	Other Postemployment Benefit		
	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net other postemployment benefit liability	$ 5,148,510	$ 4,395,593	$ 3,756,602

Sensitivity to the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following presents the District's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate of 7.5% (decreasing to 3.5%), as well as what the District's proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Other Postemployment Benefit		
	1% Decrease (6.5% decreasing to 2.5%)	Healthcare Cost Trend Rates (7.5% decreasing to 3.5%)	1% Increase (8.5% decreasing to 4.5%)
District's proportionate share of the net other postemployment benefit liability	$ 3,722,476	$ 4,395,593	$ 5,159,870

Pension and OPEB Plan Fiduciary Net Position

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

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

NOTE I: RETIREMENT AND POST RETIREMENT BENEFITS - CONTINUED

Other Information

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

NOTE J: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five classifications of fund balance under this standard.

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision-making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, the District's highest level of decision-making authority is the Board of Education. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is by vote and approval by the Board of Education.

For assigned fund balance, Fulton Schools has not approved a policy indicating who is authorized to assign amounts to a specific purpose. As a result, this authority is retained by the Board of Education.

For the classification of fund balances, the District considers restricted amounts to have been spent when expenditures are incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, the District considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

NOTE K: NEW ACCOUNTING STANDARDS

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

NOTE K: NEW ACCOUNTING STANDARDS - CONTINUED

Summary

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

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

	Governmental Activities
Net position as previously stated July 1, 2017	$ (6,473,509)
Adoption of GASB Statement 75	
Net other postemployment benefit liability	(4,636,377)
Deferred outflows of resources related to subsequent OPEB contributions	550,102
Net position as restated July 1, 2017	$ (10,559,784)

GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*, was implemented during the year. The Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

NOTE L: UPCOMING ACCOUNTING PRONOUNCEMENTS

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities.* The Statement establishes criteria for identifying fiduciary activities for all state and local governments, focusing on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries for whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2019-2020 fiscal year.

In June 2017, the GASB issued Statement No. 87, *Leases.* The Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2020-2021 fiscal year.

NOTE L: UPCOMING ACCOUNTING PRONOUNCEMENTS - CONTINUED

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2018-2019 fiscal year.

NOTE M: SUBSEQUENT EVENT

In July 2018, the District issued School Improvement Bonds in the amount of $500,000. Future revenues are expected to be sufficient to pay this obligation.

REQUIRED SUPPLEMENTARY INFORMATION

Fulton Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2018

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local sources	$ 704,915	$ 677,683	$ 710,415	$ 32,732
State sources	6,417,683	6,732,428	6,786,841	54,413
Federal sources	364,521	290,000	345,667	55,667
TOTAL REVENUES	7,487,119	7,700,111	7,842,923	142,812
EXPENDITURES				
Current				
Instruction				
Basic programs	3,543,157	3,442,158	3,498,115	(55,957)
Added needs	643,082	722,855	702,999	19,856
Adult and continuing education	788,624	612,873	692,337	(79,464)
Total instruction	4,974,863	4,777,886	4,893,451	(115,565)
Supporting services				
Student services	272,998	250,309	252,477	(2,168)
Instructional staff	171,662	98,519	104,871	(6,352)
General administration	221,238	326,363	326,916	(553)
School administration	550,828	465,051	469,389	(4,338)
Other business services	151,989	155,562	150,402	5,160
Operations and maintenance	649,160	661,250	681,259	(20,009)
Transportation	479,665	492,781	525,845	(33,064)
Central support	108,363	78,029	84,422	(6,393)
Athletics	291,951	289,567	292,908	(3,341)
Other	7,046	1,260	-	1,260
Total supporting services	2,904,900	2,818,691	2,888,489	(69,798)
Community services	193,250	247,505	251,516	(4,011)
Debt service	-	-	13,133	(13,133)
TOTAL EXPENDITURES	8,073,013	7,844,082	8,046,589	(202,507)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(585,894)	(143,971)	(203,666)	(59,695)

Fulton Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2018

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
OTHER FINANCING SOURCES (USES)				
Proceeds from installment note	$ -	$ -	$ 29,545	$ 29,545
County special education allocation	243,738	206,200	231,722	25,522
Payments to other districts	(64,500)	(118,729)	(119,021)	(292)
TOTAL OTHER FINANCING SOURCES (USES)	179,238	87,471	142,246	54,775
NET CHANGE IN FUND BALANCE	(406,656)	(56,500)	(61,420)	(4,920)
Fund balance, beginning of year	1,292,345	1,292,345	1,292,345	-0-
Fund balance, end of year	$ 885,689	1,235,845	$ 1,230,925	$ (4,920)

Fulton Schools

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

Michigan Public School Employee Retirement Plan

Last Four Measurement Dates (ultimately ten fiscal years will be displayed)
(Amounts were determined as of 9/30 of each year)

	2014	2015	2016	2017
District's proportion of net pension liability (%)	0.05332%	0.05361%	0.05198%	0.04976%
District's proportionate share of net pension liability	$ 11,745,038	$ 13,093,018	$ 12,969,767	$ 12,894,462
District's covered employee payroll	$ 4,358,138	$ 4,178,385	$ 4,318,227	$ 4,091,550
District's proportionate share of net pension liability as a percentage of its covered employee payroll	269.50%	313.35%	300.35%	315.15%
Plan fiduciary net position as a percentage of total pension liability	66.20%	63.17%	63.27%	64.21%

Fulton Schools

SCHEDULE OF PENSION CONTRIBUTIONS

Michigan Public School Employees Retirement Plan

Last Four Fiscal Years (ultimately ten fiscal years will be displayed)
(Amounts were determined as of 6/30 of each fiscal year)

	2015	2016	2017	2018
Statutorily required contributions	$ 1,013,289	$ 1,397,986	$ 1,597,897	$ 1,650,240
Contributions in relation to statutorily required contributions	1,013,289	1,397,986	1,597,897	1,650,240
Contribution deficiency (excess)	$ -0-	$ -0-	$ -0-	$ -0-
District's covered employee payroll	$ 4,346,221	$ 4,334,595	$ 4,228,538	$ 4,048,214
Contributions as a percentage of covered employee payroll	23.31%	32.25%	37.79%	40.76%

Fulton Schools

SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY

Michigan Public School Employees Retirement Plan

Last Measurement Date (ultimately ten years will be displayed)
(Amounts were determined as of 9/30 of each fiscal year)

	2017
District's proportion of net OPEB liability (%)	0.04964%
District's proportionate share of net OPEB liability	$ 4,395,593
District's covered employee payroll	$ 4,091,550
District's proportionate share of net OPEB liability as a percentage of its covered employee payroll	107.43%
Plan fiduciary net position as a percentage of total OPEB liability	36.39%

Fulton Schools

SCHEDULE OF OPEB CONTRIBUTIONS

Michigan Public School Employees Retirement Plan

Last Fiscal Year (ultimately ten fiscal years will be displayed)
(Amounts were determined as of 6/30 of each fiscal year)

	2018
Statutorily required contributions	$ 386,445
Contributions in relation to statutorily required contributions	386,445
Contribution deficiency (excess)	$ -0-
District's covered employee payroll	4,048,214
Contributions as a percentage of covered employee payroll	9.55%

NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

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

During the year ended June 30, 2018, the District incurred expenditures in excess of the amounts appropriated as follows:

	Amounts Appropriated	Amounts Expended	Variance
General Fund			
Expenditures			
Instruction			
Basic Programs	$ 3,442,158	$ 3,498,115	$ 55,957
Adult and continuing education	612,873	692,337	79,464
Supporting services			
Student services	250,309	252,477	2,168
Instructional staff	98,519	104,871	6,352
General administration	326,363	326,916	553
School administration	465,051	469,389	4,338
Operations and maintenance	661,250	681,259	20,009
Transportation	492,781	525,845	33,064
Central support	78,029	84,422	6,393
Athletics	289,567	292,908	3,341
Community services	247,505	251,516	4,011
Debt service	-	13,133	13,133
Other financing uses			
Payments to other districts	118,729	119,021	292

NOTE B: MICHIGAN PUBLIC SCHOOL EMPLOYEE RETIREMENT PLAN

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

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

STEVENS KIRINOVIC & TUCKER P.C.

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

To the Board of Education
Fulton Schools
Middleton, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fulton Schools (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise District's basic financial statements and have issued our report thereon dated September 7, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described below as 2018-001 to be a material weakness.

<u>2018-001 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS</u>

Condition: Material journal entry for the adjustment of accrued MPSERS payable was proposed by the auditors.

Criteria: Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (where applicable), including the recording of all appropriate journal entries so that the trial balances reflect amounts that are in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

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2018-001 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS - CONTINUED

Cause: The District's internal control over financial reporting failed to identify this misstatement.

Effect: Through the identification of material journal entries that were not otherwise identified by management, the general ledger was materially misstated in the governmental funds financial statements.

Recommendation: We recommend that the District take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: The district has been working very hard to streamline the payroll, and especially MPSERS, processes. We believe that these changes will prevent such omissions in the future.

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. We consider the following deficiencies in the District's internal control to be significant deficiencies:

2018-002 INTERNAL CONTROLS OVER DISBURSEMENTS

Condition: During our testing of internal controls over the disbursement process, we noted areas where the District failed to follow its established policies in the disbursement process. Specifically, we noted that there were no purchase orders present for six (6) of forty (40) transactions tested. A similar issue was noted and reported in our audit comments last year. We also noted that board approval of purchases greater than $5,000 was not present in the board minutes for two (2) of the applicable purchases that were tested.

Criteria: Established District procedures require purchase orders to be completed by building administrators or the superintendent prior to ordering items. District procedures also require board approval of non-repetitive amounts greater than $5,000.

Cause: The District failed to follow its established procedures related to disbursements.

Effect: By failing to follow established procedures, the District is at greater risk for error or fraud related to the disbursement process.

Recommendation: We recommend the District evaluate procedures related to disbursements to assure that established policies are followed consistently.

Corrective Action Response: The district has streamlined and formalized the purchase order process such that, going forward, purchases will be accompanied by a purchase order.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance or other matters:

2018-003 UNFAVORABLE BUDGET VARIANCES

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

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

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

2018-003 UNFAVORABLE BUDGET VARIANCES - CONTINUED

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

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

Corrective Action Response: The District is committed to greater accuracy in budgeting going forward. We budget conservatively in order to err on the side more favorable to the district. It is important to note that at, at the fund level, the General Fund was very close when comparing actual to the final budget.

Fulton Schools' Responses to Findings

Fulton Schools' responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stevens Kirinovic & Tucker, P.C.

STEVENS, KIRINOVIC & TUCKER, P.C.
Certified Public Accountants

September 7, 2018