



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

**JUNE 30, 2018**



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## INDEPENDENT AUDITORS' REPORT

September 12, 2018

Board of Education  
Joseph K. Lumsden Bahweting Public School  
Sault Ste. Marie, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Joseph K. Lumsden Bahweting Public School, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School'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 Joseph K. Lumsden Bahweting Public School, 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.

### **Change in Accounting Principle**

As discussed in Note 1 to the financial statements, the School adopted new accounting guidance, GASBS No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension and OPEB schedules on pages 3–9 and 36-39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Joseph K. Lumsden Bahweting Public School's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2018, on our consideration of Joseph K. Lumsden Bahweting Public School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Joseph K. Lumsden Bahweting Public School's internal control over financial reporting and compliance.

Traverse City, MI  
September 12, 2018

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

This section of the Joseph K. Lumsden Bahweting Public School's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the School's financial statements, which immediately follow this section.

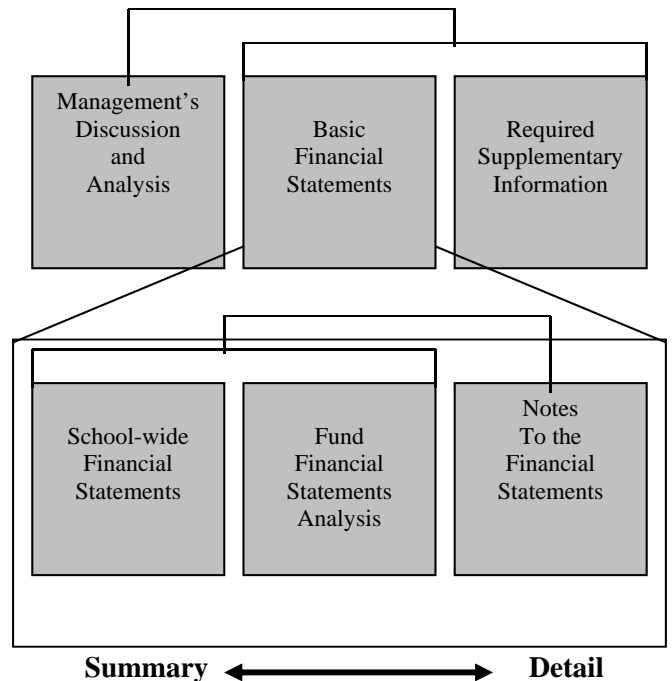
**Financial Highlights**

- The School's financial status this year was impacted by the implementation of GASB 75, which requires the School to recognize their portion of underfunded OPEB liabilities and expenses.
- At the end of the current fiscal year, the fund balance in the General Fund is \$4,322,332, a decrease of \$246,188.
- Student enrollment increased from 520.06 to 538.99 (blended count).
- Total governmental fund balance decreased by \$448,634 from the prior year.

**Overview of the Financial Statements**

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

**Figure A-1  
Required Components of  
The School's Annual Financial Report**



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

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

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

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

| <b>Figure A-2</b>  |  |   |   |
|--|--|---|---|
| <b>Major Features of the School-Wide and Fund Financial Statements</b> |  |   |   |
|  | School-Wide<br>Statements  | Fund Statements   |   |
|  |  | Governmental Funds  | Fiduciary Funds   |
| <b>Scope</b>   | Entire School<br>(except fiduciary<br>funds)   | The activities of the School that<br>are not proprietary or fiduciary,<br>such as special education and<br>building maintenance   | Instances in which the<br>School is the trustee or<br>agent for someone else's<br>resources such as student<br>activities monies                  |
| Required<br>Financial<br>Information                                   | <ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul> | <ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>  | <ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul> |
| Accounting Basis<br>and Measurement<br>Focus                           | Accrual<br>accounting and<br>economic<br>resources focus   | Modified accrual accounting<br>and current financial resources<br>focus   | Accrual accounting and<br>economic resources focus  |
| Type of Asset<br>Liability<br>Information                              | All assets and<br>liabilities, both<br>financial and<br>capital, and short-<br>term and long-<br>term            | Generally assets expected to be<br>used up and liabilities that come<br>due during the year or soon<br>thereafter; no capital assets<br>included  | All assets and liabilities,<br>both short-term and long-<br>term; funds do not<br>currently contain capital<br>assets, although they can          |
| Type of<br>Inflow/Outflow<br>Information                               | All revenues and<br>expenses during<br>year, regardless of<br>when cash is<br>received or paid.                  | Revenues for which cash is<br>received during or soon after<br>the end of the year;<br>expenditures when goods or<br>services have been received and<br>the related liability is due and<br>payable | All revenues and expenses<br>during year regardless of<br>when cash is received or<br>paid.   |

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

**School-wide Statements**

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

The two School-wide statements report the School's net position and how it has changed. Net position – the difference between the School's assets and liabilities – is one way to measure the Schools financial health or position.

- Over time, increases or decreases in the School's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the School, you need to consider additional non-financial factors such as changes in the condition of school building and other facilities.

The government-wide financial statements of the School are:

- Governmental activities – Most of the School's basic services are included here, such as regular and special education, transportation and administration. Federal funds and state aid finance most of these activities.

**Fund Financial Statements**

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

- Some funds are required by state law and by bond covenants.
- The School establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues.

The School has two kinds of funds:

- Governmental funds – Most of the School's basic services are included in governmental funds, which focus on (1) how much cash and other financial assets that can readily be converted to cash flow in and out and (2) The balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, this report includes reconciliation schedules that explain the relationship (or differences) between the School-wide Statements and the Fund financial Statements.
- Fiduciary funds – The School is trustee, or fiduciary, for assets that belong to others, such as student activities and scholarship funds. The School is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the School's government-wide financial statements because the School cannot use these assets to finance its operations.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

**Financial Analysis of the School as a Whole**

Net Position. The School's combined net position was not significantly changed on June 30, 2018 than it was the year before, decreasing by approximately 0.3%. Figure A-3 illustrates the valuation of net position on June 30, 2018 and 2017.

**Figure A-3**

*Condensed Statement of Net Position*

|   | 2018           | 2017           |
|---|----------------|----------------|
| <b>Assets</b>                                   |                |                |
| Current   | \$ 5,452,643   | \$ 5,797,204   |
| Non-current                                     | 2,002,813      | 1,481,446      |
| Total assets                                    | 7,455,456      | 7,278,650      |
| <b>Deferred Outflows of Resources</b>           | 3,454,833      | 2,318,356      |
| <b>Liabilities</b>                              |                |                |
| Current   | 1,083,645      | 979,572        |
| Non-Current                                     | 17,680,668     | 17,260,519     |
| Total liabilities                               | 18,764,313     | 18,240,091     |
| <b>Deferred Inflows of Resources</b>            | 846,307        | 29,640         |
| <b>Net Position</b>                             |                |                |
| Invested in capital assets, net of related debt | 2,002,813      | 1,481,447      |
| Nonspendable                                    | 156,425        | 143,243        |
| Restricted                                      | 26,088         | 25,674         |
| Unassigned                                      | (10,885,657)   | (10,323,089)   |
| Total net position (2017 restated)              | \$ (8,700,331) | \$ (8,672,725) |



**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

**Figure A-4**

*Results of Operations:*

|                                    | 2018               | 2017              |
|------------------------------------|--------------------|-------------------|
| <b>Revenues:</b>                   |                    |                   |
| Unrestricted state aid             | \$ 4,113,031       | \$ 3,932,360      |
| Other unrestricted revenue         | 4,961,417          | 3,053,219         |
| Investment earnings                | 8,738              | 4,841             |
| Other local revenues               | 39,097             | 22,284            |
| Charges for services               | 52,767             | 49,601            |
| Operating grants and contributions | 1,494,777          | 3,189,660         |
| Gain (loss) on sale of assets      | (1,895)            | (139,369)         |
|                                    | <u>10,667,932</u>  | <u>10,112,596</u> |
| <b>Expenditures:</b>               |                    |                   |
| Instruction                        | 6,369,306          | 6,273,155         |
| Support services                   | 3,639,618          | 3,092,328         |
| Food service                       | 363,516            | 365,465           |
| Athletics and student activities   | 73,857             | 62,114            |
| Depreciation                       | 249,241            | 233,398           |
|                                    | <u>10,695,538</u>  | <u>10,026,460</u> |
| <b>CHANGE IN NET POSITION</b>      | <u>\$ (27,606)</u> | <u>\$ 86,136</u>  |

The School's financial position is the product of many factors. Enrollment increased and categorical funding increased. The District completed significant capital projects during the year and implemented GASB 75.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

**Financial Analysis of the School's Funds**

As the Public School completed the year its governmental funds reported combined fund balances of \$4,368,998 decreasing from last year's ending fund balances of \$4,817,632.

**General Fund Budgetary Highlights**

Over the course of the year, the School revised the annual operating budget two times. The budget amendments were necessary to account for fluctuations in revenues and expenses. Significant items causing the budget amendments were:

- Per Pupil funding increased by \$120
- Federal revenues increased
- Purchased new bus
- Furniture and technology for middle school addition

At the end, actual expenditures were \$10,252,154 compared to \$10,681,339 budgeted, which represents a favorable budget variance of \$429,185.

Actual revenues were \$10,404,840 compared to \$10,811,339 budgeted, which represents an unfavorable budget variance of \$406,499.

**Capital Asset and Debt Administration**

**Capital Assets:**

By the end of 2018, the School had invested \$4,287,849 in a broad range of capital assets, including school renovations, furniture, technology purchases, and new bus.

The amount represents a \$688,631 increase in capital assets compared to last year.

Total depreciation expense for the year was \$249,241.

**Long Term Liabilities:**

Total long-term liabilities at June 30, 2018 consisted of liability for accrued vacations of \$14,885, net OPEB liability of \$4,491,486 and net pension liability of \$13,174,297.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

**Factors Bearing on the School's Future**

The following factors have been considered in preparing the budget for the 2018-19 school year:

- Enrollment projected to increase by 50 students
- State aid projected to increase by \$240 per pupil
- Employee compensation package
- Additional staffing needs (Literacy Coach and Middle School teacher)
- Purchase new school bus with lift

**Contacting the School's Financial Management**

This financial report is designed to provide the School's citizens, taxpayers, customers, and investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrative office, Joseph K. Lumsden Bahweting Public School.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

**ASSETS**

|   |                  |
|---|------------------|
| Current Assets:                                 |                  |
| Cash and cash equivalents                       | \$ 2,800,778     |
| Other Receivables                               | 3,713            |
| Due from other governmental units               | 2,491,727        |
| Inventory and prepaid items                     | <u>156,425</u>   |
| Total current assets                            | 5,452,643        |
| Noncurrent assets:                              |                  |
| Capital assets, net of accumulated depreciation | 2,002,813        |
| Total Assets                                    | <u>7,455,456</u> |

**DEFERRED OUTFLOWS OF RESOURCES**

|  |                  |
|--|------------------|
| Deferred outflows related to pensions (Note 9) | 3,154,985        |
| Deferred outflows related to OPEB (Note 10)    | <u>299,848</u>   |
| Total deferred outflows                        | <u>3,454,833</u> |

**LIABILITIES**

|  |                   |
|--|-------------------|
| Current liabilities:                           |                   |
| Accounts payable and other current liabilities | 657,112           |
| Salaries payable                               | 401,144           |
| Unearned revenue                               | <u>25,389</u>     |
| Total current liabilities                      | 1,083,645         |
| Noncurrent liabilities:                        |                   |
| Compensated absences payable                   | 14,885            |
| Net OPEB liability                             | 4,491,486         |
| Net pension liability                          | <u>13,174,297</u> |
| Total noncurrent liabilities                   | 17,680,668        |
| Total Liabilities                              | <u>18,764,313</u> |

**DEFERRED INFLOWS OF RESOURCES**

|   |                |
|---|----------------|
| Deferred inflows related to pensions (Note 9) | 694,462        |
| Deferred inflows related to OPEB (Note 10)    | <u>151,845</u> |
| Total deferred inflows                        | <u>846,307</u> |

**NET POSITION**

|   |                       |
|---|-----------------------|
| Invested in capital assets, net of related debt | 2,002,813             |
| Nonspendable                                    | 156,425               |
| Restricted                                      | 26,088                |
| Unassigned                                      | <u>(10,885,657)</u>   |
| Total Net Position                              | <u>\$ (8,700,331)</u> |

See notes to financial statements.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

| <b>Functions/Programs</b>                               | Expenses      | Program Revenues        |  | Capital<br>Grants and<br>Contributions | Net (expenses)<br>And changes in<br>Net position |
|---|---------------|-------------------------|--|--|--|
|   |               | Charges for<br>Services | Operating<br>Grants and<br>Contributions |  | Total  |
| Governmental activities:                                |               |                         |  |  |  |
| Instruction and Instructional Services                  | \$ 6,369,306  | \$                      | \$ 1,291,283                             | \$                                     | \$ (5,078,023)                                   |
| Supporting services                                     | 3,639,618     |                         |  |  | (3,639,618)                                      |
| Food service  | 363,516       | 52,767                  | 203,494                                  |  | (107,255)  |
| Athletics and student activities                        | 73,857        |                         |  |  | (73,857)   |
| Depreciation (Unallocated)                              | 249,241       |                         |  |  | (249,241)  |
| Total governmental activities                           | \$ 10,695,538 | \$ 52,767               | \$ 1,494,777                             | \$                                     | (9,147,994)                                      |
| <b>General revenues:</b>                                |               |                         |  |  |  |
|   |               |                         |  |  | 4,113,031  |
| Unrestricted state aid                                  |               |                         |  |  | 47,835   |
| Interest, investment earnings, and other local revenues |               |                         |  |  | 4,961,417  |
| Other unrestricted revenue                              |               |                         |  |  | (1,895)  |
| Gain (loss) on disposal of fixed assets                 |               |                         |  |  | (1,895)  |
| Total General revenues                                  |               |                         |  |  | 9,120,388  |
| CHANGES IN NET POSITION                                 |               |                         |  |  |  |
|   |               |                         |  |  | (27,606)   |
| Net position – beginning of year, as reported           |               |                         |  |  | (3,935,203)                                      |
| Prior period adjustment – GASB 75                       |               |                         |  |  | (4,737,522)                                      |
| Net position – beginning of year, restated              |               |                         |  |  | (8,672,725)                                      |
| Net position – end of year                              |               |                         |  |  | \$ (8,700,331)                                   |

See notes to financial statements.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
BALANCE SHEETS  
GOVERNMENTAL FUNDS  
JUNE 30, 2018**

|  | General             | Capital<br>Projects Fund | Other<br>Governmental<br>Funds-<br>Food Service<br>Fund | Total<br>Governmental<br>Funds |
|--|---------------------|--------------------------|---|--------------------------------|
| <b>ASSETS</b>                                |                     |                          |   |                                |
| Cash and cash equivalents                    | \$ 2,774,576        | \$                       | \$ 26,202   | \$ 2,800,778                   |
| Receivables:                                 |                     |                          |   |                                |
| Accounts                                     |                     |                          | 3,713   | 3,713                          |
| Due from other governmental units            | 2,491,727           |                          |   | 2,491,727                      |
| Prepaid expenses                             | 135,847             | 18,000                   |   | 153,847                        |
| Inventory                                    |                     |                          | 2,578   | 2,578                          |
|  | <u>\$ 5,402,150</u> | <u>\$ 18,000</u>         | <u>\$ 32,493</u>  | <u>\$ 5,452,643</u>            |
| <br><b>LIABILITIES AND FUND<br/>BALANCES</b> |                     |                          |   |                                |
| Liabilities:                                 |                     |                          |   |                                |
| Accounts payable and accrued expenses        | \$ 656,708          | \$                       | \$ 404  | \$ 657,112                     |
| Salaries payable                             | 401,144             |                          |   | 401,144                        |
| Unearned revenue                             | 21,966              |                          | 3,423   | 25,389                         |
|  | <u>1,079,818</u>    | <u></u>                  | <u>3,827</u>  | <u>1,083,645</u>               |
| Fund balances:                               |                     |                          |   |                                |
| Nonspendable                                 | 135,847             | 18,000                   | 2,578   | 156,425                        |
| Restricted                                   |                     |                          | 26,088  | 26,088                         |
| Committed                                    | 4,059,560           |                          |   | 4,059,560                      |
| Unassigned                                   | 126,925             |                          |   | 126,925                        |
|  | <u>4,322,332</u>    | <u>18,000</u>            | <u>28,666</u>   | <u>4,368,998</u>               |
| Total fund balances                          | <u>\$ 5,402,150</u> | <u>\$ 18,000</u>         | <u>\$ 32,493</u>  | <u>\$ 5,452,643</u>            |

See notes to financial statements.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
WITH THE STATEMENT OF NET POSITION  
JUNE 30, 2018**

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

|  |                                       |                              |
|--|---------------------------------------|------------------------------|
| <b>Total Fund Balance - Governmental Funds</b>   |                                       | <b>\$ 4,368,998</b>          |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.                               |                                       |                              |
|  | The cost of capital assets is         | 4,287,849                    |
|  | Accumulated depreciation is           | <u>(2,285,036)</u>           |
|  |                                       | 2,002,813                    |
| Long-term liabilities, including Net Pension & OPEB Liability, are not due and payable in the current period and therefore are not reported as liabilities in the funds. |                                       |                              |
|  | Compensated absences (vacations)      | (14,885)                     |
|  | Net OPEB Liability                    | (4,491,486)                  |
|  | Net Pension Liability                 | <u>(13,174,297)</u>          |
|  |                                       | (17,680,668)                 |
| Deferred inflows and outflows are not reported in governmental funds.  |                                       |                              |
|  | Deferred outflows related to OPEB     | 299,848                      |
|  | Deferred outflows related to pensions | 3,154,985                    |
|  | Deferred inflows related to OPEB      | (151,845)                    |
|  | Deferred inflows related to pensions  | <u>(694,462)</u>             |
|  |                                       | 2,608,526                    |
| <b>Total net position - governmental activities</b>  |                                       | <b><u>\$ (8,700,331)</u></b> |

See notes to financial statements.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

|  | General             | Capital<br>Projects Fund | Other<br>Governmental<br>Funds-<br>Food Service<br>Fund | Total<br>Governmental<br>Funds |
|--|---------------------|--------------------------|---|--------------------------------|
| <b>REVENUES:</b>   |                     |                          |   |                                |
| Local sources  | \$ 47,835           | \$                       | \$ 52,767   | \$ 100,602                     |
| State sources  | 5,108,598           |                          | 8,726   | 5,117,324                      |
| Federal sources  | 286,990             |                          | 203,494   | 490,484                        |
| Other sources  | 4,961,417           |                          |   | 4,961,417                      |
| <b>Total revenues</b>  | <b>10,404,840</b>   |                          | <b>264,987</b>  | <b>10,669,827</b>              |
| <b>Instruction:</b>  |                     |                          |   |                                |
| Basic instruction  | 4,283,182           |                          |   | 4,283,182                      |
| Added needs  | 1,985,785           |                          |   | 1,985,785                      |
| <b>Total Instruction</b>                                     | <b>6,268,967</b>    |                          |   | <b>6,268,967</b>               |
| <b>Support Services:</b>                                     |                     |                          |   |                                |
| Pupil services   | 155,918             |                          |   | 155,918                        |
| Instructional staff  | 561,948             |                          |   | 561,948                        |
| General Administration                                       | 551,024             |                          |   | 551,024                        |
| School Administration  | 253,411             |                          |   | 253,411                        |
| Business   | 596,656             |                          |   | 596,656                        |
| Operations and Maintenance                                   | 1,283,556           |                          |   | 1,283,556                      |
| Capital Expenditures   |                     | 502,791                  |   | 502,791                        |
| Transportation   | 506,817             |                          |   | 506,817                        |
| Food service   |                     |                          | 363,516   | 363,516                        |
| Athletics and student activities                             | 73,857              |                          |   | 73,857                         |
| <b>Total support services</b>                                | <b>3,983,187</b>    | <b>502,791</b>           | <b>363,516</b>  | <b>4,849,494</b>               |
| <b>Total expenditures</b>                                    | <b>10,252,154</b>   | <b>502,791</b>           | <b>363,516</b>  | <b>11,118,461</b>              |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b> | <b>152,686</b>      | <b>(502,791)</b>         | <b>(98,529)</b>   | <b>(448,634)</b>               |
| <b>OTHER FINANCING SOURCES (USES):</b>                       |                     |                          |   |                                |
| Operating transfers in                                       |                     | 300,000                  | 98,874  | 398,874                        |
| Operating transfers out                                      | (398,874)           |                          |   | (398,874)                      |
| <b>Total other financing sources (uses)</b>                  | <b>(398,874)</b>    | <b>300,000</b>           | <b>98,874</b>   |                                |
| <b>NET CHANGES IN FUND BALANCES</b>                          | <b>(246,188)</b>    | <b>(202,791)</b>         | <b>345</b>  | <b>(448,634)</b>               |
| <b>FUND BALANCE - Beginning of year</b>                      | <b>4,568,520</b>    | <b>220,791</b>           | <b>28,321</b>   | <b>4,817,632</b>               |
| <b>FUND BALANCE - End of year</b>                            | <b>\$ 4,322,332</b> | <b>\$ 18,000</b>         | <b>\$ 28,666</b>  | <b>\$ 4,368,998</b>            |

See notes to financial statements.



**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

**Total net change in fund balances - governmental funds** **\$ (448,634)**

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

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

|                          |                  |         |
|--------------------------|------------------|---------|
| Capital Outlays          | 772,503          |         |
| Basis of assets disposed | (1,895)          |         |
| Depreciation Expense     | <u>(249,241)</u> | 521,367 |

In the statement of activities, certain compensated absences (vacations) and special termination benefits are measured by amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by essentially the amounts actually paid. The amounts included in the statement of activities are:

|                                  |       |
|----------------------------------|-------|
| Compensated absences (vacations) | 2,088 |
|----------------------------------|-------|

The Governmental funds report pension expense based on the monthly payroll expense, whereas the net Pension & OPEB Liabilities are not a use of current resources of governmental funds.

The net adjustment of the Pension & OPEB liabilities in the statement of activities is as follows:

|   |                  |
|---|------------------|
| Change in Net OPEB Liability and related deferred inflows and outflows    | 394,039          |
| Change in Net Pension Liability and related deferred inflows and outflows | <u>(496,466)</u> |

**Change in net position of governmental activities** **\$ (27,606)**

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
STATEMENT OF FIDUCIARY NET POSITION  
TRUST AND AGENCY FUNDS  
JUNE 30, 2018 AND 2017**

|  | 2017      | 2018      |
|--|-----------|-----------|
| <b>ASSETS</b>                            |           |           |
| Cash                                     | \$ 21,340 | \$ 14,492 |
| Accounts Receivable                      | 526       |           |
|  | \$ 21,866 | \$ 14,492 |
| <b>LIABILITIES AND FUND<br/>BALANCES</b> |           |           |
| Liabilities:                             |           |           |
| Accounts payable                         | \$ 21,866 | \$ 14,492 |

See notes to financial statements.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Charter School – The Charter School was organized under Act 362 of the Michigan Public Acts of 1993. This Act allows for this School to be eligible for State Aid and must comply with the Michigan School Code provisions. The School operates under a grant agreement with the Board of Control – Northern Michigan University. The School was created to provide a learning experience which includes Ojibwa culture, values and traditions. The School’s agreement with Northern Michigan University will expire on June 30, 2020.

The basic financial statements of Joseph K. Lumsden Bahweting Public School (the Joseph K. Lumsden Bahweting Public School) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School’s accounting policies are described below.

**Reporting Entity**

In evaluating how to define the School, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

Based on the application of these criteria, the general purpose financial statements of School contain all the funds and account groups controlled by the School’s Board of Education as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the School nor is the School a component unit of another entity.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the school. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The School has no business-type activities.

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

The School first utilizes restricted resources to finance qualifying activities.

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

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Measurement Focus, Basis of Accounting and Basis of Presentation**

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

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

The Joseph K. Lumsden Bahweting Public School reports the following major governmental funds:

The *general fund* is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

The *capital projects fund* accounts for the acquisition or construction of major capital projects.

Additionally, the School reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School Lunch is considered a special revenue fund.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Property taxes, state foundation revenue, interest and charges for services are susceptible to accrual. Other receipts become measurable and available when cash is received by the School and are recognized as revenue at that time. State and federal revenues are recognized as follows:

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**State Foundation Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school Schools based on information supplied by the Schools. For the year ended June 30, 2018 the foundation allowance was based on the pupil membership counts taken in October 2017 and February 2018.

The state revenue is recognized during the foundation period and is funded through payments from October 2017 to August 2018. Thus, the unpaid portion at June 30<sup>th</sup> is reported as due from other governmental units.

**Categorical**

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

**Federal Revenue**

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

**Assets, Liabilities and Equity**

**1. Cash and investments**

The Joseph K. Lumsden Bahweting Public School reports its investments in accordance with GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, such as certificates of deposit, and the School intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the School to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The School is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2. Short-term Interfund Receivables/Payables**

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

**3. Inventories and Prepaid Items**

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the special revenue funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized and are not included as a reservation of fund balance.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**4. Capital Assets**

Capital assets, which include property, plant, equipment are reported in the government-wide financial statements. Capital assets are defined by the School as assets with an initial individual cost of more than \$5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donations.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant and equipment of the Joseph K. Lumsden Bahweting Public School is depreciated using the straight line method over the following estimated useful lives:

|                                |           |
|--------------------------------|-----------|
| Buildings                      | 25 yrs    |
| Building and site improvements | 20 yrs    |
| General equipment              | 10-20 yrs |
| Vehicles                       | 8 yrs     |
| Office furniture and fixtures  | 7 yrs     |
| Computer equipment             | 5 yrs     |

**5. Compensated Absences**

Accumulated vacation and sick pay amounts which are expected to be liquidated with expendable available resources (generally sixty days) are recorded in the general fund while the remainder of the liability is recorded in the school-wide financial statements.

**6. Unemployment Insurance**

The School reimburses the State of Michigan for the actual amount of unemployment benefits disbursed by the State on behalf of the School. Billings are received for amounts paid by the State through June 30 are accrued.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**7. Fund Balance**

Fund balances are reported in the following classifications. *Nonspendable*, includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted*, includes amounts that are restricted to specific purposes, or imposed by law through constitutional provisions or enabling legislation. *Committed*, are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Education. *Assigned*, amounts that are constrained by the Superintendent to be used for specific purposes, but are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the general fund. It represents amount that have not been restricted, committed or assigned to a specific purpose.

**8. Use of Estimates**

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

**9. Pensions**

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

**10. Postemployment Benefits Other Than Pensions**

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

**11. Adoption of New Accounting Standards**

Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions establishes standards for recognizing and measuring liabilities, deferred outflows & inflows of resources, and expenses. For defined OPEB plans, the Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriations budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

The School maintains a formalized encumbrance accounting system.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditure and changes in fund balances – budget and actual – GAAP basis – general, special revenue and debt service funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by the 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 be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the Budgeting Act are disclosed as unfavorable variances on the combined statement of revenues, expenditures and changes in fund balance – budget and actual – GAAP basis – general, special revenue and debt service funds.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30<sup>th</sup>.



**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 – DEPOSITS, INVESTMENTS AND CREDIT RISK**

Cash and cash equivalents are held separately in the name of the School by each of the School’s funds.

**Deposits**

At year-end, the carrying amount of the School’s deposits was \$2,815,170 and the bank balance was \$3,001,551, of which \$528,653 was covered by federal depository insurance and \$2,472,898 was uninsured and uncollateralized. The School has \$100 in petty cash on hand.

*Interest Rate Risk* – The School will monitor interest rate risk by using and analyzing, segmented time distribution, specific identification and time duration of investments, limiting its investment portfolio to one year or less.

*Credit Risk* - State statutes authorize the School to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The School is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers’ acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School has no investment policy that would further limit its investment choices.

*Concentration of Credit Risk* – The School policy places no limit on the amount the School may invest. The School may invest 100% of its available reserve in U.S. Treasury securities and those securities completely guaranteed by the Treasury. Investments in other types of authorized securities may be made at no more than 25% of total current investment portfolio. The total current investment portfolio consists of one type of security.

A reconciliation of cash as shown on the combined balance sheet follows:

|                             |    |                         |
|-----------------------------|----|-------------------------|
| Cash on hand                | \$ | 100                     |
| Carrying amount of deposits |    | <u>2,815,170</u>        |
| Total                       | \$ | <u><u>2,815,270</u></u> |
|                             |    |                         |
| Cash and cash equivalents:  |    |                         |
| Governmental activities     | \$ | 2,800,778               |
| Fiduciary funds             |    | <u>14,492</u>           |
| Total                       | \$ | <u><u>2,815,270</u></u> |

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 – RECEIVABLES**

Receivables at June 30, 2018 consist of the following:

|                    |                     |
|--------------------|---------------------|
| Governmental units | <u>\$ 2,491,727</u> |
|--------------------|---------------------|

Amounts due from governmental units include amounts due from federal, state and local sources for various projects and programs. Because of the School's favorable collection experience, no allowance for doubtful accounts has been recorded.

**NOTE 5 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

In addition to assets, the statement of financial position and or balance sheet 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 School District has only one item that qualifies for reporting in this category. It relates to the District's net pension plan liability and is composed from the changes in assumptions, changes in proportion and differences between the District's contributions and proportionate share of contributions, and the District's contributions subsequent to the measurement date.

In addition to liabilities, the statement of financial position and or balance sheet 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 School District has only one type of item, which arises from the District's net pension plan liability. It is composed of the District's share of the net difference between projected and actual earnings on pension plan investments.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 – LONG-TERM LIABILITIES**

The Schools employment policy provides for School staff who are classified as regular, full, part time, or seasonal to accrue vacation according to the following schedule:

Employees hired on or before 6/30/2009

1. Year-round salaried employees receive fifteen (15) days for the first year of employment and accrue five (5) days over the year. They earn an additional day per year of service thereafter, up to a maximum of thirty (30) days per year.
2. Year-round hourly employees receive ten (10) days for the first year of employment and accrue five (5) days over the year. They earn an additional day per year of service thereafter, up to a maximum of thirty (30) days per year.
3. Teachers accrue four (4) days per school year.
4. Seasonal employees accrue 3.89 days per school year. Additionally, after three years of consecutive employment with the school, they can accrue one additional day per year, up to a maximum of three (3) days.
5. Only 8 hours of vacation may be carried over at year-end. Any hours in excess of 8 are converted into sick time hours. Sick time hours are not paid out upon termination, and are therefore not carried as a liability.

Employees hired on or after 7/01/2009

1. Year-round salaried employees receive ten (10) days for the first year of employment and accrue 5.37 days over the year. They earn an additional day per year of service thereafter, up to a maximum of thirty (30) days per year.
2. Year-round hourly employees receive five (5) days for the first year of employment and accrue 5.37 days over the year. They earn an additional day per year of service thereafter, up to a maximum of thirty (30) days per year.
3. Teachers accrue four (4) days per school year.
4. Seasonal employees accrue 3.89 days per school year.
5. Only 8 hours of vacation may be carried over at year-end. Any hours in excess of 8 are converted into sick time hours. Sick time hours are not paid out upon termination, and are therefore not carried as a liability.

A summary of accrued compensated absences at June 30, 2018 is as follows:

|          | Beginning        | Additions | Deletions       | Ending           |
|----------|------------------|-----------|-----------------|------------------|
| Vacation | <u>\$ 16,973</u> | <u>\$</u> | <u>\$ 2,088</u> | <u>\$ 14,885</u> |

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 – DISCLOSURE OF INFORMATION ABOUT CAPITAL ASSETS**

Capital asset balances and activity for the year ended June 30, 2018 were as follows:

|  | <u>Beginning<br/>of year</u> | <u>Additions</u>  | <u>Retirements/<br/>Reclassifications</u> | <u>End<br/>of year</u> |
|--|------------------------------|-------------------|---|------------------------|
| Governmental activities:<br>Capital assets not being<br>depreciated: |                              |                   |   |                        |
| Land   | \$ 25,122                    | \$                | \$  | \$ 25,122              |
| Capital assets, being depreciated                                    |                              |                   |   |                        |
| Land improvements  | \$ 236,133                   | \$                | \$  | \$ 236,133             |
| Leasehold improvements   | 689,428                      |                   | 6,500                                     | 682,928                |
| Buildings and improvements   | 956,923                      |                   |   | 956,923                |
| Furniture, fixtures, & equipment                                     | 1,039,369                    | 669,168           |   | 1,708,537              |
| Vehicles   | 652,243                      | 103,335           | 77,372                                    | 678,206                |
| Total historical cost  | <u>\$ 3,574,096</u>          | <u>\$ 772,503</u> | <u>\$ 83,872</u>                          | <u>\$ 4,262,727</u>    |
| Less accumulated depreciation:                                       |                              |                   |   |                        |
| Land improvements  | \$ 145,522                   | \$ 14,438         | \$  | \$ 459,960             |
| Leasehold improvements   | 521,605                      | 33,264            | 4,604                                     | 550,265                |
| Buildings and improvements   | 605,877                      | 42,453            |   | 648,330                |
| Furniture, fixtures, & equipment                                     | 380,241                      | 112,211           |   | 492,452                |
| Vehicles   | 464,527                      | 46,875            | 77,37                                     | 434,029                |
| Total accumulated<br>depreciation                                    | <u>\$ 2,117,772</u>          | <u>\$ 249,241</u> | <u>\$ 81,977</u>                          | <u>\$ 2,285,036</u>    |
| Governmental activities capital<br>assets, net                       | <u>\$ 1,481,446</u>          |                   |   | <u>\$ 2,002,813</u>    |

Depreciation for the fiscal year ended June 30, 2018 amounted to \$249,241. The School determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**NOTE 8 – GOVERNMENTAL FUND TYPE INTERFUND TRANSACTIONS**

Interfund transfers for the year ended June 30, 2018 were as follows:

| <u>Fund Transferred Out</u> | <u>Fund Transferred In</u> | <u>Amount</u> |
|-----------------------------|----------------------------|---------------|
| General fund                | Food Service fund          | \$ 98,874     |
| General fund                | Capital Projects fund      | 300,000       |

Transfers were to subsidize operations.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 – MICHIGAN PUBLIC SCHOOL EMPLOYEES’ RETIREMENT SYSTEM PENSION**

**Plan Description**

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

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System. The System's financial statements are available at [www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr).

**Benefits Provided**

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits for are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

**Contributions and Funded Status**

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

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

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 – MICHIGAN PUBLIC SCHOOL EMPLOYEES’ RETIREMENT SYSTEM PENSION - continued**

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

| <u>Benefit Structure</u>      | <u>Member</u> | <u>Employer</u> |
|-------------------------------|---------------|-----------------|
| <b>Basic</b>                  | 0.0 - 4.0 %   | 19.03 %         |
| <b>Member Investment Plan</b> | 3.0 - 7.0     | 19.03           |
| <b>Pension Plus</b>           | 3.0 - 6.4     | 18.40           |
| <b>Defined Contribution</b>   | 0.0           | 15.27           |

The School’s required and actual contributions to the plan for the year ended September 30, 2017 were \$1,192,422.

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

At June 30, 2018, the School reported a liability of **\$13,174,297** for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. The School’s proportion of the net pension liability was determined by dividing each employer’s statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, the School’s proportion was 0.0508 percent, which was an increase of 0.0007 percent from its proportion measured as of September 30, 2016.

For the year ended June 30, 2018, the Reporting Unit recognized total pension expense of \$1,557,556. At June 30, 2018, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|---|---|--|
| Differences between expected and actual experience  | \$ 114,494                                    | \$ 64,644                                |
| Changes of assumptions  | 1,443,349                                     | -  |
| Net difference between projected and actual earnings on pension plan investments                                    | -   | 629,818                                  |
| Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions | 469,879                                       | -  |
| Reporting Unit contributions subsequent to the measurement date   | 1,127,263                                     | -  |
| <b>Total</b>  | <u>\$ 3,154,985</u>                           | <u>\$ 694,462</u>                        |

Deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 – MICHIGAN PUBLIC SCHOOL EMPLOYEES’ RETIREMENT SYSTEM PENSION - continued**

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

| Plan Year Ended<br>September 30 | Amount:    |
|---------------------------------|------------|
| 2018                            | \$432,027  |
| 2019                            | \$628,022  |
| 2020                            | \$281,112  |
| 2021                            | \$ (7,901) |

**Actuarial Assumptions**

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

Additional information as of the latest actuarial valuation follows:

**Summary of Actuarial Assumptions**

|                                     |   |
|-------------------------------------|---|
| Valuation Date:                     | September 30, 2016                            |
| Actuarial Cost Method:              | Entry Age, Normal                             |
| Wage Inflation Rate:                | 3.5%  |
| Investment Rate of Return:          |   |
| - MIP and Basic Plans (Non-Hybrid): | 7.5%  |
| - Pension Plus Plan (Hybrid):       | 7.0%  |
| - OPEB                              | 7.5%  |
| Projected Salary Increases:         | 3.5 - 12.3%, including wage inflation at 3.5% |
| Cost-of-Living Pension Adjustments: | 3% Annual Non-Compounded for MIP Members      |

Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 – MICHIGAN PUBLIC SCHOOL EMPLOYEES’ RETIREMENT SYSTEM PENSION - continued**

**Long-Term Expected Rate on Plan Assets**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of September 30, 2017, are summarized in the following table:

| <b>Asset Class</b>                   | <b>Target<br/>Allocation</b> | <b>Long Term Expected<br/>Real Rate of Return</b> |
|--------------------------------------|------------------------------|---|
| Domestic Equity Pools                | 28.0 %                       | 5.6   |
| % Alternative Investment Pools       | 18.0                         | 8.7   |
| International Equity                 | 16.0                         | 7.2   |
| Fixed Income Pools                   | 10.5                         | (0.1)   |
| Real Estate and Infrastructure Pools | 10.0                         | 4.2   |
| Absolute Return Pools                | 15.5                         | 5.0   |
| Short Term Investment Pools          | 2.0                          | (0.9)   |
| <b>TOTAL</b>                         | <b>100.0 %</b>               |   |

**Rate of Return**

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

**Discount Rate**

A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the School’s proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the School’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

| <b>1% Decrease<br/>(Non-Hybrid/Hybrid)<br/>6.5% / 6.0%</b> | <b>Current Single Discount Rate<br/>Assumption<br/>(Non-Hybrid/Hybrid)<br/>7.5% / 7.0%</b> | <b>1% Increase<br/>(Non-Hybrid/Hybrid)<br/>8.5% / 8.0%</b> |
|--|--|--|
| \$17,161,728   | \$13,174,297   | \$9,817,135  |



**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 – MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM OPEB**

**Plan Description**

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

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System. The System's financial statements are available at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

**Benefits Provided**

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

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

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

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 – MICHIGAN PUBLIC SCHOOL EMPLOYEES’ RETIREMENT SYSTEM OPEB - continued**

**Contributions and Funded Status**

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

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

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

| <b>Benefit Structure</b> | <b>Member</b> | <b>Employer</b> |
|--------------------------|---------------|-----------------|
| Premium Subsidy          | 3.0 %         | 5.91 %          |
| Personal Healthcare Fund | 0.0           | 5.69            |

Required contributions to the OPEB plan from the Employer were \$394,876 for the year ended September 30, 2017.

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

At June 30, 2018, the School reported a liability of **\$4,491,486** for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The School’s proportion of the net OPEB liability was determined by dividing each employer’s statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the School’s proportion was 0.0507 percent.

For the year ended June 30, 2018, the School recognized total OPEB expense of \$300,900. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|   | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|---|---|--|
| Differences between expected and actual experience  | \$ -  | \$ 47,821                                |
| Changes of assumptions  | -   | -  |
| Net difference between projected and actual earnings on pension plan investments                                    | -   | 104,024                                  |
| Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions | 2,125   | -  |
| Reporting Unit contributions subsequent to the measurement date   | 297,723                                       | -  |
| <b>Total</b>  | <b>\$ 299,848</b>                             | <b>\$ 151,845</b>                        |

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 – MICHIGAN PUBLIC SCHOOL EMPLOYEES’ RETIREMENT SYSTEM OPEB – continued**

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

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

| Plan Year Ended<br>September 30 | Amount:    |
|---------------------------------|------------|
| 2018                            | (\$36,219) |
| 2019                            | (\$36,219) |
| 2020                            | (\$36,219) |
| 2021                            | (\$36,219) |
| 2022                            | (\$4,844)  |

**Actuarial Assumptions**

See note 9.

**Summary of Actuarial Assumptions**

See note 9.

**Long-Term Expected Rate on Plan Assets**

See note 9.

**Rate of Return**

See note 9.

**Discount Rate**

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

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 – MICHIGAN PUBLIC SCHOOL EMPLOYEES’ RETIREMENT SYSTEM OPEB – continued**

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

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

| <b>1% Decrease<br/>6.5%</b> | <b>Current Single Discount Rate<br/>Assumption<br/>7.5%</b> | <b>1% Increase<br/>8.5%</b> |
|-----------------------------|---|-----------------------------|
| \$5,260,828                 | \$4,491,486   | \$3,838,555                 |

**NOTE 11 – RISK MANAGEMENT**

The School is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees’ and natural disasters. The School participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers’ disability compensation. The pools are considered Public entity risk pools. The School pays annual premiums to each pool for the respective insurance coverage. In the event a pool’s total claims and expenses for one 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 assessments to make up the deficiency. Each of the pools maintain reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The School has not been informed of any special assessments being required.

The School continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

**NOTE 12 – LEASES**

The School leases the main building and the 10-room portable building from the Sault Ste. Marie Tribe of Chippewa Indians on an operating lease. Monthly payments are subject to an annual increase determined by the Consumer Price Index as determined by the US Bureau of Labor Statistics. The maximum percentage of the increase is capped at 3% for any given year. Monthly lease payments under this formula were \$47,787 at June 30, 2018. Total rent paid during the year was \$470,865.

A new lease was signed July, 2017 for a 96-month term. The table below summarizes annual obligations under the most current operating lease.

| Year Ending June 30 | Amount     |
|---------------------|------------|
| 2019                | \$ 573,444 |
| 2020                | 573,444    |
| 2021                | 573,444    |
| 2022                | 573,444    |
| 2023                | 573,444    |
| 2024                | 573,444    |
| 2025                | 573,444    |
| 2026                | 573,444    |

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 13 – FUND BALANCE COMMITMENTS/ASSIGNMENTS**

The fund balance as of June 30, 2018 has been committed as follows:

|                         |                     |
|-------------------------|---------------------|
| Committed Fund Balance: |                     |
| General fund:           |                     |
| Building Rent           | \$ 2,867,220        |
| Cash flow requirements  | 1,042,340           |
| Technology              | <u>150,000</u>      |
|                         | <u>\$ 4,059,560</u> |

**NOTE 14 – FEDERAL EXPENDITURES**

Current federal guidelines require entities with federal expenditures exceeding \$750,000 to have a “single audit” of federally funded programs. The school had federal expenditures of \$490,484 during the year and does not meet the single audit threshold.

**NOTE 15 – RECLASSIFICATION OF AMOUNTS**

Certain amounts previously reported have been reclassified to conform to the 2018 presentation.

**NOTE 16 – ADOPTION OF NEW ACCOUNTING STANDARDS**

As indicated in Note 1, the School has adopted Government Accounting Standards Board Statement 75. This required the School to record their proportionate share of the net OPEB liability and OPEB expense. Previously, these amounts were not recorded on the School’s statements. The impact of this change is to reduce beginning net position in the statement of activities as of July 1, 2017 by \$4,737,522.

**NOTE 17 – SUBSEQUENT EVENTS**

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2018, the most recent statement of financial position presented herein, through September 12, 2018, the issuance date of the accompanying financial statements. No significant such events or transactions were identified.

**REQUIRED SUPPLEMENTARY INFORMATION**

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – BUDGET AND ACTUAL – GAAP BASIS  
YEAR ENDED JUNE 30, 2018**

|  | <u>Budgeted Amounts</u> |                     | <u>Actual</u>       | <u>Variance with<br/>Final Budget-<br/>Favorable<br/>(unfavorable)</u> |
|--|-------------------------|---------------------|---------------------|--|
|  | <u>Original</u>         | <u>Final</u>        |                     |  |
| <b>REVENUES:</b>   |                         |                     |                     |  |
| Local sources  | \$ 10,500               | \$ 48,400           | \$ 47,835           | \$ (565)   |
| State sources  | 4,690,584               | 5,115,512           | 5,108,598           | (6,914)  |
| Federal sources  | 5,399,728               | 313,719             | 286,990             | (26,729)   |
| Other sources  | -                       | 5,333,708           | 4,961,417           | (372,291)  |
|  | <u>10,100,812</u>       | <u>10,811,339</u>   | <u>10,404,840</u>   | <u>(406,499)</u>   |
| <b>EXPENDITURES:</b>   |                         |                     |                     |  |
| Instruction:   |                         |                     |                     |  |
| Basic instruction  | 4,282,525               | 4,267,883           | 4,283,182           | (15,299)   |
| Added needs  | 2,221,247               | 2,320,667           | 1,985,785           | 334,882  |
|  | <u>6,503,772</u>        | <u>6,588,550</u>    | <u>6,268,967</u>    | <u>319,583</u>   |
| Support Services:  |                         |                     |                     |  |
| Pupil services   | 147,525                 | 151,337             | 155,918             | (4,581)  |
| Instructional staff  | 375,285                 | 568,191             | 561,948             | 6,243  |
| General Administration                                       | 576,932                 | 610,601             | 551,024             | 59,577   |
| School Administration  | 279,552                 | 253,499             | 253,411             | 88   |
| Business   | 552,991                 | 615,214             | 596,656             | 18,558   |
| Operations and Maintenance                                   | 1,075,095               | 1,306,187           | 1,283,556           | 22,631   |
| Transportation   | 396,264                 | 505,488             | 506,817             | (1,329)  |
| Athletics and student activities                             | 58,396                  | 82,272              | 73,857              | 8,415  |
|  | <u>3,462,040</u>        | <u>4,092,789</u>    | <u>3,983,187</u>    | <u>109,602</u>   |
| Total expenditures   | <u>9,965,812</u>        | <u>10,681,339</u>   | <u>10,252,154</u>   | <u>429,185</u>   |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b> | <u>135,000</u>          | <u>130,000</u>      | <u>152,686</u>      | <u>22,686</u>  |
| <b>OTHER FINANCING SOURCES (USES):</b>                       |                         |                     |                     |  |
| Operating transfers out                                      | (425,000)               | (425,000)           | (398,874)           | 26,126   |
|  | <u>(425,000)</u>        | <u>(425,000)</u>    | <u>(398,874)</u>    | <u>26,126</u>  |
| <b>NET CHANGES IN FUND BALANCES</b>                          | <u>\$ (290,000)</u>     | <u>\$ (295,000)</u> | <u>(246,188)</u>    | <u>\$ 48,812</u>   |
| <b>FUND BALANCES:</b>  |                         |                     |                     |  |
| Beginning of year  |                         |                     | 4,568,520           |  |
| End of year  |                         |                     | <u>\$ 4,322,332</u> |  |

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
REQUIRED SUPPLEMENTARY INFORMATION**

**Schedule of the Employer's Proportionate Share of the Net Pension Liability**  
Michigan Public School Employees Retirement Plan  
Last 10 Fiscal Years (Amounts were determined 9/30 of each fiscal year)

|  | <u>2014</u>   | <u>2015</u>   | <u>2016</u>   | <u>2017</u>   |
|--|---------------|---------------|---------------|---------------|
| A. Employer's proportion of net pension liability (%)  | 0.04713%      | 0.04890%      | 0.05012%      | 0.05083%      |
| B. Employer's proportionate share of net pension liability   | \$ 10,381,060 | \$ 11,945,216 | \$ 12,506,024 | \$ 13,174,297 |
| C. Employer's covered-employee payroll   | \$ 4,126,485  | \$ 4,106,618  | \$ 4,276,892  | \$ 4,254,970  |
| D. Employer's proportionate share of net pension liability as a percentage of its covered-employee payroll (%) | 251.57%       | 288.08%       | 352.13%       | 309.62%       |
| E. Plan fiduciary net position as a percentage of total pension liability                                      | 66.20%        | 62.92%        | 63.01%        | 64.21%        |

**Schedule of the Employer's Pension Contributions**  
Michigan Public School Employees Retirement Plan  
Last 10 Reporting Unit Fiscal Years (July 1- June 30)

|  | <u>2015</u>  | <u>2016</u>  | <u>2017</u>  | <u>2018</u>  |
|--|--------------|--------------|--------------|--------------|
| A. Statutorily required contributions                              | \$ 956,574   | \$ 863,656   | \$ 1,003,397 | \$ 1,417,716 |
| B. Contributions in relation to statutorily required contributions | \$ 956,574   | \$ 863,656   | \$ 1,003,397 | \$ 1,417,716 |
| C. Contribution deficiency (excess)                                | -            | -            | -            | -            |
| D. Reporting unit's covered-employee payroll                       | \$ 4,146,397 | \$ 4,322,601 | \$ 4,340,640 | \$ 4,553,926 |
| E. Contributions as a percentage of covered-employee payroll       | 23.07%       | 19.98%       | 23.11%       | 31.13%       |



**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
REQUIRED SUPPLEMENTARY INFORMATION**

**Schedule of the Reporting Unit's Proportionate Share of the Net OPEB Liability**  
Michigan Public School Employees Retirement Plan  
Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

|  | <b>2017</b>  |
|--|--------------|
| A. Employer's proportion of net OPEB liability (%)   | 0.0507%      |
| B. Employer's proportionate share of net OPEB liability                                    | \$ 4,491,486 |
| C. Employer's covered payroll  | \$ 4,254,970 |
| D. Employer's proportionate share of net OPEB liability as a percentage of covered payroll | 105.55%      |
| E. Plan fiduciary net position as a percentage of total OPEB liability                     | 36.39%       |

**Schedule of the Reporting Unit's OPEB Contributions**  
Michigan Public School Employees Retirement Plan  
Last 10 Reporting Unit Fiscal Years (Amounts determined 6/30 of each year)

|   | <b>2018</b>  |
|---|--------------|
| A. Statutorily required OPEB contributions                              | \$ 357,873   |
| B. OPEB contributions in relation to statutorily required contributions | \$ 357,873   |
| C. Contribution deficiency (excess)                                     | -            |
| D. Reporting unit's covered-employee payroll                            | \$ 4,553,926 |
| E. OPEB contributions as a percentage of covered-employee payroll       | 7.85%        |

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**NOTE 1 – BUDGETARY COMPARISON SCHEDULES**

Joseph K. Lumsden Bahweting Public School is not legally required to present budgetary information for capital project fund. Accordingly, the budgetary comparison schedules for the Capital Project fund is not required.

**NOTE 2 - INFORMATION RELATED TO THE NET PENSION LIABILITY**

**Changes in benefits terms:** There were no changes to benefit terms.

**Changes of assumptions:** On February 23, 2017, MPSERS approved a decrease in the discount rate for the September 30, 2016 annual actuarial valuation of 0.5 percent to 7.00 percent from 7.50 based on the group.

**NOTE 3 - INFORMATION RELATED TO THE NET OPEB LIABILITY**

**Changes in benefits terms:** There were no changes to benefit terms.

**Changes of assumptions:** There were no changes of benefit assumptions in the September 30, 2017 valuation.

## **ADDITIONAL INFORMATION**

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
TRUST AND AGENCY FUND  
STATEMENT OF RECEIPTS AND DISBURSEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

|                  | Balance<br>07/01/17 | Additions        | Reductions       | Balance<br>06/30/18 |
|------------------|---------------------|------------------|------------------|---------------------|
| Student council  | \$ 204              | \$               | \$ 2             | \$ 202              |
| Service learning | 1,010               | 1                | 2                | 1,009               |
| Donation         | 554                 |                  | 151              | 403                 |
| Drum             | 6,958               | 141              | 130              | 6,969               |
| Jump rope        |                     | 1,847            | 1,847            |                     |
| Sports           | 1,217               |                  | 1                | 1,216               |
| HSAT             | 1,346               | 1                | 2                | 1,345               |
| Class of 2017    | 4,997               |                  | 4,997            |                     |
| Class of 2018    | 5,348               | 16,830           | 19,966           | 2,212               |
| Class of 2019    |                     | 2,155            | 1,248            | 907                 |
| K-5 fundraiser   | 230                 |                  | 1                | 229                 |
| Self Contained   | 2                   |                  | 2                |                     |
| <b>Total</b>     | <b>\$ 21,866</b>    | <b>\$ 20,975</b> | <b>\$ 28,349</b> | <b>\$ 14,492</b>    |



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

Board of Education  
Joseph K. Lumsden Bahweting Public School  
Sault Ste. Marie, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Joseph K. Lumsden Bahweting Public School as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Joseph K. Lumsden Bahweting Public School's basic financial statements and have issued our report thereon dated September 12, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

### Purpose of this Report

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

Traverse City, MI  
September 12, 2018

Joseph K. Lumsden Bahweting School  
Summary Schedule of Prior Audit Findings  
For the Fiscal Year Ended June 30, 2018

**Finding: 2017-1 Audit Adjustments**

Status: Corrected.

**Finding: 2017-2 Allowable Costs – Title I Payroll Charges**

Status: Corrected.



September 12, 2018

Board of Education  
Joseph K. Lumsden Bahweting Public School  
Sault Ste. Marie, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Joseph K. Lumsden Bahweting Public Schools for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 15, 2018. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Joseph K. Lumsden Bahweting Public Schools are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the District changed accounting policies related to accounting for Other Postemployment Benefits by adopting Statement of Governmental Accounting Standards No. 75, in 2017. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the School's financial statements were:

- Management's estimate of the liability of the payout of employee compensated absences is based on expected payout.
- Depreciation is based on the estimated useful life of the assets. We evaluated the key factors and assumptions used to develop the amount of depreciation charged in determining that it is reasonable in relation to the financial statements taken as a whole.
- Estimates have been used to calculate net pension & OPEB liabilities.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

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

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.



### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 12, 2018.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issue*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as St. Ignace Area School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to the required supplementary information (RSI), which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

### Restriction on Use

This information is intended solely for the use of the Board of Education and management of Joseph K. Lumsden Bahweting Public School and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Certified Public Accountants