



# WEINLANDER FITZHUGH

GAYLORD COMMUNITY SCHOOLS  
GAYLORD, MICHIGAN

FINANCIAL STATEMENTS  
JUNE 30, 2018

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# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

October 16, 2018

Board of Education  
Gaylord Community Schools  
Gaylord, Michigan

### **Report on the Financial Statements**

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

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards 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 School District'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 School District'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 Gaylord Community Schools as of June 30, 2018 and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

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Board of Education  
Gaylord Community Schools  
October 16, 2018

## ***Emphasis of Matter***

As discussed in Note 14 to the financial statements, in 2018, the School District adopted new accounting guidance, GASB 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*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining nonmajor fund financial statements and schedules of bonded indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements, schedules of bonded indebtedness and the schedule of expenditures of federal awards 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 U.S. generally accepted auditing standards. In our opinion, the combining nonmajor fund financial statements, schedules of bonded indebtedness and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.



# WEINLANDER FITZHUGH

Board of Education  
Gaylord Community Schools  
October 16, 2018

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2018, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

*Weinlander Fitzhugh*

**GAYLORD COMMUNITY SCHOOLS**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2018

Our discussion and analysis of Gaylord Community Schools' (School District) financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2018.

**Financial Highlights**

The School District's net position increased by \$2,211,032 or 7%. Program revenues were \$8,153,542 or 22% of total revenues, and general revenues were \$28,314,576 or 78%.

The General Fund reported a positive fund balance of \$6,540,592.

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

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

**Using this Annual Financial Report**

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund - the General Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- District-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Pension Schedules (Required Supplemental Information)

OPEB Schedules (Required Supplemental Information)

Notes to Required Supplementary Information

Other Supplemental Information

**GAYLORD COMMUNITY SCHOOLS**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2018

**Reporting the District as a Whole**

*The Statement of Net Position and Statement of Activities*

One of the most important questions asked about the School District's finances is: "Is the School District better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the School District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School District's net position as a way to measure the School District's financial position. The change in net position provides the reader a tool to assist in determining whether the School District's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, student enrollment growth and facility conditions in arriving at their conclusion regarding the overall health of the School District.

**Reporting the District's Most Significant Funds**

*Fund Financial Statements*

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other sources of revenue. The School District's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

*Governmental Funds*

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

*Proprietary Funds - Internal Service Fund*

The purpose of the Internal Service Fund is to finance certain services provided to other funds on a cost-reimbursement basis. The School District maintains this fund for accrued compensated absences. It is funded through charges to and transfers from the General Fund and Food Service Fund.

*Fiduciary Funds*

The School District is the trustee, or fiduciary, for its student activity funds and scholarship funds. All of the School District's fiduciary activities are reported in separate statements of Fiduciary Net Position. We exclude these activities from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.



**GAYLORD COMMUNITY SCHOOLS**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2018

**District-wide Financial Analysis**

The statement of net position provides the perspective of the School District as a whole. Exhibit A provides a summary of the School District's net position as of June 30, 2018 and 2017:

<b>Exhibit A</b>	Governmental Activities	
	2018	Nonrestated 2017
<b>Assets</b>		
Current and other assets	\$ 11,703,805	\$ 11,119,647
Capital assets - net of accumulated depreciation	26,623,490	26,880,674
Total assets	38,327,295	38,000,321
<b>Deferred Outflows of Resources</b>		
Related to pensions	10,964,940	5,679,678
Related to OPEB	931,770	0
Total deferred outflows of resources	11,896,710	5,679,678
<b>Liabilities</b>		
Current liabilities	7,047,471	6,453,790
Long-term liabilities	66,200,028	50,615,046
Total liabilities	73,247,499	57,068,836
<b>Deferred Inflows of Resources</b>		
Related to pensions	5,035,224	2,109,123
Related to OPEB	511,199	0
Total deferred inflows of resources	5,546,423	2,109,123
<b>Net Position</b>		
Net investment in capital assets	17,661,735	15,325,707
Restricted	393,190	822,927
Unrestricted	(46,624,842)	(31,646,594)
Total net position	\$ (28,569,917)	\$ (15,497,960)

The analysis on the previous page focuses on net position (see Exhibit A). The School District's net position of governmental activities were \$(28,569,917) at June 30, 2018. Investment in property and equipment, net of related debt totaling \$17,661,735, compares the original costs less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt requirements and legislation that limit the School District's ability to use that net position for day-to-day operations.

**GAYLORD COMMUNITY SCHOOLS**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2018

The \$(46,624,842) in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The School District implemented GASB Statement No. 68 in 2015. The effect of this Statement required the School District to report in the summary of net position, a liability of \$44,488,003 for 2018 and \$41,124,580 for 2017.

The School District implemented GASB Statement No. 75 in 2018. The effect of this Statement required the School District to report in the summary of net position, a liability of \$15,120,957 for 2018 and \$0 for 2017. The 2017 summary of the School District's net position was not restated to reflect this implementation.

The results of this year's operations for the School District as a whole are reported in the statement of activities. Exhibit B provides a summary of the changes in net position for the years ended June 30, 2018 and 2017.

<b>Exhibit B</b>	<u>Governmental Activities</u>	
	<u>2018</u>	<u>Nonrestated 2017</u>
<b>Revenues</b>		
Program revenue:		
Charges for services	\$ 1,120,409	\$ 1,088,733
Grants and categoricals	7,033,133	6,083,270
General revenue:		
Property taxes	14,631,106	13,151,624
State aid	13,235,829	13,859,210
Other	447,641	370,437
Total revenues	<u>36,468,118</u>	<u>34,553,274</u>
<b>Function/Program Expenses</b>		
Instruction	20,376,226	18,850,418
Support	8,708,602	8,227,905
Community services	166,849	162,479
Food services	1,774,438	1,764,168
Athletics	648,268	591,423
Facilities, acquisition, construction and improvements	130,666	4,050
Payments to other school districts	10,000	10,000
Capital outlay	601,099	438,685
Interest and other	296,456	383,356
Depreciation (unallocated)	1,448,262	1,392,292
Loss on sale of assets	86,951	0
Adjustments to prior period revenue accounts	9,269	0
Total expenses	<u>34,257,086</u>	<u>31,824,776</u>
<b>Change in Net Position</b>	<u>\$ 2,211,032</u>	<u>\$ 2,728,498</u>

**GAYLORD COMMUNITY SCHOOLS**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2018

The School District implemented GASB Statement No. 75 for 2018. The effect of this Statement required the School District to report in the summary of the change in net position, an expense of \$550,308. The 2017 summary of the School District's change in net position was not restated to reflect this implementation.

As reported in the statement of activities, the cost of all of our governmental activities this year was \$34,257,086. Certain activities were partially funded from those who benefited from the programs, \$1,120,409, or by the other governments and organizations that subsidized certain programs with grants and categoricals of \$7,033,133. We paid for the remaining "public benefit" portion of our governmental activities with \$14,631,106 in taxes, \$13,235,829 in State aid and with our other revenues, such as interest and entitlements.

The School District's governmental activities had an increase in net position of \$2,211,032. The major reasons include bond payments, changes in the liability for compensated absences and continuous replacement and upgrades to our buildings, grounds and equipment. The increase in net position differs from the change in fund balance and a reconciliation appears in the financial statements.

**The School District's Funds**

The School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

The School District's governmental funds reported a combined fund balance of \$7,459,304, which is above last year's total of \$7,372,530. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2018 and 2017.

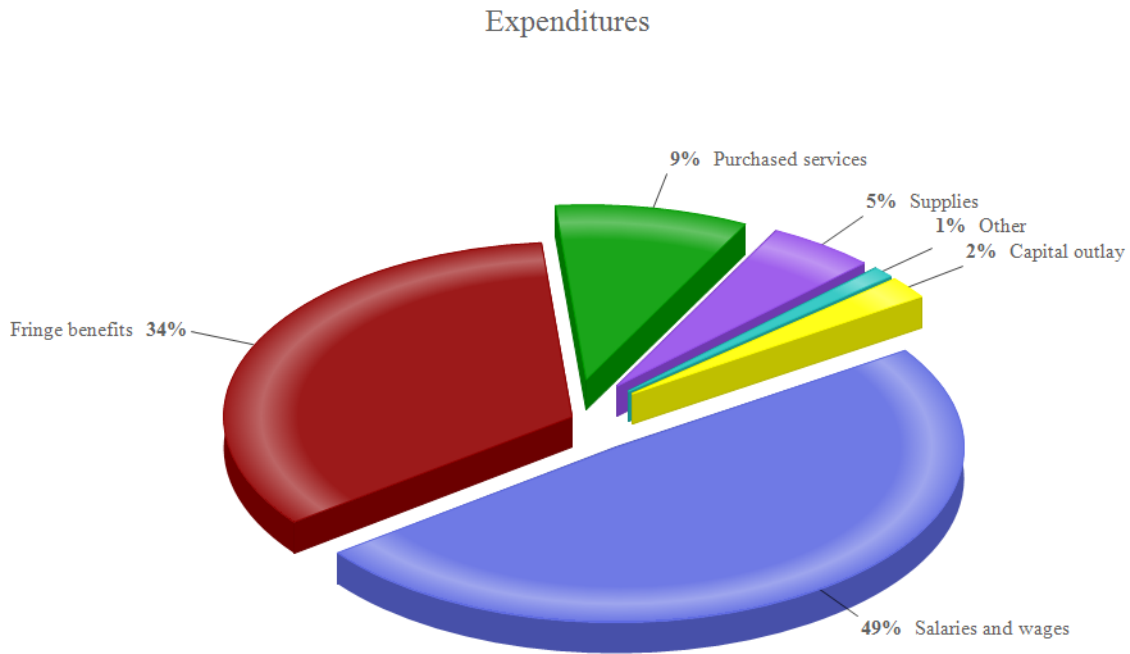
	Fund Balance <u>6/30/2018</u>	Fund Balance <u>6/30/2017</u>	Increase (Decrease)
General	\$ 6,540,592	\$ 6,096,354	\$ 444,238
Special Revenue	487,832	385,318	102,514
Debt Service	260,416	310,943	(50,527)
Capital Projects	170,464	579,915	(409,451)
	<u>\$ 7,459,304</u>	<u>\$ 7,372,530</u>	<u>\$ 86,774</u>

- Our General Fund increase of \$444,238 is mainly attributable to revenue being higher than expected. Specifically, the district experienced an increase in state sources as well as local taxes.
- Our Special Revenue Funds increased primarily due to an increase in revenue of 7.2%. This being mostly attributable to adjustments to the state revenue. Expenditures remained fairly constant with only a slight increase of 1.2%.
- Our Debt Service Funds had a small decrease. This being attributable to the variance between the revenue collected from the annual millage levied and the scheduled bond payments.

**GAYLORD COMMUNITY SCHOOLS**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2018**

- Our Capital Projects Fund had a decrease of \$409,451. This is due to the expenses incurred for several large capital projects. These projects utilized current year funds as well as funds that had been set aside from the previous fiscal year.

As the graph below illustrates, the largest portions of General Fund expenditures are for salaries and fringe benefits. The School District by nature is a labor intensive organization.



Expenditures by Object	2018	2017
Salaries and wages	\$ 14,985,529	\$ 14,645,457
Fringe benefits	10,231,327	9,479,224
Purchased services	2,619,179	2,576,968
Supplies	1,456,417	1,629,169
Capital outlay	746,786	419,121
Other	264,228	268,347
Total	<u>\$ 30,303,466</u>	<u>\$ 29,018,286</u>

Expenditures have increased by \$1,285,180. The majority of this is due to cost increases in personnel. Some of these costs are outside of the districts control. Mandatory retirement payments and increased costs for healthcare are contributing factors.

**GAYLORD COMMUNITY SCHOOLS**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2018

**General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenues were increased from the original budget by \$721,932. This was mainly due to an increase in state and federal sources as well as local property taxes.
- Budgeted expenditures were increased from the original budget by \$406,265. This was due to adjustments to expenditures throughout the budget.
- Actual revenues were \$920,700 more than the final budget. This was mainly due to an increase in state sources of revenue.
- Actual expenditures were \$134,354 more than the final budget. This was mainly due to an underestimate of the anticipated cost for benefits.

**Capital Assets**

At June 30, 2018, the School District had \$26,623,490 invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net decrease (including additions and disposals) of \$257,184 from last year.

	Governmental Activities	
	2018	2017
Land	\$ 168,654	\$ 255,605
Buildings and improvements	49,704,662	48,806,863
Furniture and equipment	5,249,288	5,110,999
Buses and other vehicles	2,448,019	2,487,384
Total capital assets	57,570,623	56,660,851
Less accumulated depreciation	30,947,133	29,780,177
Net capital assets	\$ 26,623,490	\$ 26,880,674

This year's additions of \$1,278,029 were for additional technology and continued building and facility improvements.

We present more detailed information about our capital assets in the notes to the financial statements.

**GAYLORD COMMUNITY SCHOOLS**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2018

**Debt**

At the end of this year, the School District had \$8,495,000 in bonds outstanding versus \$11,140,000 in the previous year - a decrease of 24%.

	2018	2017
2009 refunding bonds	\$ 4,390,000	\$ 5,275,000
2013 refunding bonds	4,105,000	5,865,000
	\$ 8,495,000	\$ 11,140,000

**Factors Expected to have an Effect on Future Operations**

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

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation until 2018-2019.

**Requests for Information**

This financial report is designed to provide a general overview of the School District's finances for all those with an interest in the School District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the Superintendent  
Gaylord Community Schools  
614 S. Elm Avenue  
Gaylord, MI 49735

GAYLORD COMMUNITY SCHOOLS  
Statement of Net Position  
June 30, 2018

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash	\$ 6,647,577
Receivables:	
Accounts receivable	10,193
Due from other governments	3,745,800
Inventory	35,623
Prepaid expenses	1,264,612
Capital assets less accumulated depreciation \$30,947,133	<u>26,623,490</u>
Total assets	<u>38,327,295</u>
<u>Deferred Outflows of Resources</u>	
Related to pensions	10,964,940
Related to OPEB	<u>931,770</u>
Total deferred outflows of resources	<u>11,896,710</u>
<u>Liabilities</u>	
Trade account payable	235,901
Due to other governments	328,913
Unearned revenue	691,082
Accrued payroll and payroll liabilities	2,880,254
Accrued interest payable	53,907
Long-term liabilities:	
Due within one year	2,857,414
Due in more than one year	6,591,068
Net pension liability	44,488,003
Net OPEB Liability	<u>15,120,957</u>
Total liabilities	<u>73,247,499</u>
<u>Deferred Inflows of Resources</u>	
Related to pensions	5,035,224
Related to OPEB	<u>511,199</u>
Total deferred inflows of resources	<u>5,546,423</u>
<u>Net Position</u>	
Net investment in capital assets	17,661,735
Restricted for debt service	222,726
Restricted for capital projects	170,464
Unrestricted	<u>(46,624,842)</u>
Total net position	<u>\$ (28,569,917)</u>

See accompanying notes to financial statements.

**GAYLORD COMMUNITY SCHOOLS**  
**Statement of Activities**  
**For the Year Ended June 30, 2018**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>
<u>Functions/Programs</u>		<u>Charges for Services</u>	<u>Operating Grants/ Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
Primary government -				
Governmental activities:				
Instruction	\$ 20,376,226	\$ 222,195	\$ 5,845,317	\$ (14,308,714)
Support	8,708,602	5,653	12,802	(8,690,147)
Community services	166,849	779	0	(166,070)
Food services	1,774,438	759,881	1,108,644	94,087
Athletics	648,268	131,901	0	(516,367)
Facilities, acquisition, construction and improvements	130,666	0	56,908	(73,758)
Payments to other school districts	10,000	0	0	(10,000)
Capital outlay	601,099	0	9,462	(591,637)
Interest and other	296,456	0	0	(296,456)
Depreciation (unallocated)	1,448,262	0	0	(1,448,262)
Loss on sale of assets	86,951	0	0	(86,951)
Adjustments to prior period revenue accounts	9,269	0	0	(9,269)
<b>Total governmental activities</b>	<b><u>\$ 34,257,086</u></b>	<b><u>\$ 1,120,409</u></b>	<b><u>\$ 7,033,133</u></b>	<b><u>(26,103,544)</u></b>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				10,464,386
Property taxes, levied for capital projects				1,147,229
Property taxes, levied for debt services				3,019,491
State aid				13,235,829
Interest and investment earnings				41,339
Other				406,302
Total general revenues				<u>28,314,576</u>
Change in net position				2,211,032
Net position - beginning of year, as restated				<u>(30,780,949)</u>
Net position - end of year				<u><u>\$ (28,569,917)</u></u>

See accompanying notes to financial statements.



GAYLORD COMMUNITY SCHOOLS  
Governmental Funds  
Balance Sheet  
June 30, 2018

	General	Other Nonmajor Governmental Funds	Total
<u>Assets</u>			
Cash	\$ 5,874,300	\$ 639,961	\$ 6,514,261
Receivables:			
Accounts receivable	9,251	942	10,193
Due from other funds	105,429	394,109	499,538
Due from other governments	3,723,461	22,339	3,745,800
Inventory	13,551	22,072	35,623
Prepaid expenditures	1,264,612	0	1,264,612
Total assets	\$ 10,990,604	\$ 1,079,423	\$ 12,070,027
<u>Liabilities and Fund Balance</u>			
<u>Liabilities</u>			
Trade accounts payable	\$ 231,582	\$ 4,319	\$ 235,901
Due to other funds	337,201	137,372	474,573
Due to other governments	328,913	0	328,913
Unearned revenue	672,062	19,020	691,082
Accrued payroll and payroll liabilities	2,880,254	0	2,880,254
Total liabilities	4,450,012	160,711	4,610,723
<u>Fund Balance</u>			
Nonspendable - inventory	13,551	22,072	35,623
Nonspendable - prepaid	1,264,612	0	1,264,612
Restricted for debt service	0	260,416	260,416
Restricted for capital projects	0	170,464	170,464
Restricted for food service	0	465,760	465,760
Unassigned	5,262,429	0	5,262,429
Total fund balance	6,540,592	918,712	7,459,304
Total liabilities and fund balance	\$ 10,990,604	\$ 1,079,423	\$ 12,070,027

See accompanying notes to financial statements.

GAYLORD COMMUNITY SCHOOLS  
 Reconciliation of Balance Sheet of Governmental Funds  
 to the Statement of Net Position  
June 30, 2018

Total fund balance - governmental funds	\$ 7,459,304
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	
Cost of the capital assets	57,570,623
Accumulated depreciation	(30,947,133)
Deferred outflows used in governmental activities are not financial resources and therefore are not reported in governmental funds:	
Related to pensions	10,964,940
Related to OPEB	931,770
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(8,495,000)
Compensated absences	(486,727)
Net pension liability	(44,488,003)
Bond premium	(308,404)
Net OPEB Liability	(15,120,957)
Installment purchase agreement	(50,000)
Accrued interest payable is included as a liability in governmental activities	(53,907)
Deferred inflows used in governmental activities are not recognized as current resources and therefore are not reported in governmental funds:	
Related to pensions	(5,035,224)
Related to OPEB	(511,199)
Total net position - governmental activities	<u>\$ (28,569,917)</u>

See accompanying notes to financial statements.

GAYLORD COMMUNITY SCHOOLS  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Year Ended June 30, 2018

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Revenues</u>			
Local Sources:			
Property taxes	\$ 10,459,624	\$ 4,166,088	\$ 14,625,712
Other local sources	778,370	832,072	1,610,442
State sources	17,590,611	112,536	17,703,147
Federal sources	813,944	996,108	1,810,052
Interdistrict and other sources	1,132,383	0	1,132,383
Total revenues	<u>30,774,932</u>	<u>6,106,804</u>	<u>36,881,736</u>
<u>Expenditures</u>			
Current:			
Instruction	20,447,913	0	20,447,913
Support services	8,990,211	13,387	9,003,598
Athletics	648,268	0	648,268
Community services	166,849	0	166,849
Payments to other school districts	10,000	0	10,000
Food services	0	1,786,040	1,786,040
Facilities, acquisition, construction and improvement	40,225	90,441	130,666
Debt service:			
Principal	0	2,670,000	2,670,000
Interest and other	0	417,039	417,039
Capital outlay	0	1,580,320	1,580,320
Total expenditures	<u>30,303,466</u>	<u>6,557,227</u>	<u>36,860,693</u>
Excess (deficiency) of revenues over expenditures	<u>471,466</u>	<u>(450,423)</u>	<u>21,043</u>
<u>Other Financing Sources (Uses)</u>			
Transfers In	0	17,959	17,959
Transfers Out	(17,959)	0	(17,959)
Proceeds from bond issuance	0	75,000	75,000
Adjustments to prior period revenue accounts	(9,269)	0	(9,269)
Total other financing sources (uses)	<u>(27,228)</u>	<u>92,959</u>	<u>65,731</u>
Net change in fund balance	<u>444,238</u>	<u>(357,464)</u>	<u>86,774</u>
Fund balance - beginning of year	<u>6,096,354</u>	<u>1,276,176</u>	<u>7,372,530</u>
Fund balance - end of year	<u>\$ 6,540,592</u>	<u>\$ 918,712</u>	<u>\$ 7,459,304</u>

See accompanying notes to financial statements.

GAYLORD COMMUNITY SCHOOLS  
 Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balance of Governmental Funds to the Statement of Activities  
 For the Year Ended June 30, 2018

Net change in fund balance - total governmental funds	\$ 86,774
<p>Amounts reported for governmental activities in the statements of activities are different because:</p>	
<p style="padding-left: 20px;">Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation</p>	
Depreciation expense	(1,448,262)
Capital outlay	1,278,029
Loss on sale of asset	(86,951)
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Other costs related to debt issuance and retirement use governmental fund resources but recognize them as expenses through amortization on the statement of net assets:</p>	
Repayment of bonds	2,645,000
Amortization of bond premium	106,563
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	14,023
Repayment of loans are an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	25,000
Decreases in compensated absences are reported as expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6	87,514
Loan proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from bonds issued.	(75,000)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	
Pension related items	(1,004,262)
OPEB related items	582,604
Change in net position of governmental activities	<u>\$ 2,211,032</u>

See accompanying notes to financial statements.

GAYLORD COMMUNITY SCHOOLS  
Internal Service Fund  
Statement of Net Position  
June 30, 2018

	<u>Internal Service Fund</u>
<u>Assets</u>	
Cash	\$ 133,316
<u>Liabilities</u>	
Due to other funds	\$ 24,965
Other accrued liabilities	95,071
Other obligations	<u>13,280</u>
Total liabilities	<u>\$ 133,316</u>

See accompanying notes to financial statements.

GAYLORD COMMUNITY SCHOOLS  
Internal Service Fund  
Statement of Cash Flows  
For the Year Ended June 30, 2018

	<u>Internal Service Fund</u>
<u>Cash Flows From Operating Activities</u>	
Adjustments to reconcile change in net position to net cash flows from operating activities:	
Due to other funds	\$ 10,879
Accrued liabilities and other obligations	<u>(8,995)</u>
Net cash flows from operating activities	<u>1,884</u>
Net change in cash	1,884
Cash - beginning of year	<u>131,432</u>
Cash - end of year	<u><u>\$ 133,316</u></u>

See accompanying notes to financial statements.

GAYLORD COMMUNITY SCHOOLS  
Fiduciary Funds  
Statement of Fiduciary Net Position  
June 30, 2018

	<u>Agency Funds</u>
<u>Assets</u>	
Cash	\$ <u>609,600</u>
<u>Liabilities</u>	
Due to student groups	\$ <u>609,600</u>

GAYLORD COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

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

The accounting policies of Gaylord Community Schools (the "School District") conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

**Reporting Entity**

The School District is governed by an elected Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

**District-wide and Fund Financial Statements**

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of 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. All of the School District's government-wide activities are considered governmental activities.

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

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



GAYLORD COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

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

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

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

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

Amounts reported as program revenue 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 revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

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

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

Proprietary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

GAYLORD COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

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

The School District reports the following major governmental fund:

**General Fund** - The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

**Assets, Liabilities, and Net Position or Equity**

**Cash and Investments** - Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

**Inventory and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventory is maintained in the General Fund and Special Revenue Fund (Food Service Fund). Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid items in both district-wide and fund financial statements.

**Capital Assets** - Capital assets, which include land, buildings, equipment and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and any asset susceptible to theft. 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 donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment and vehicles are depreciated using the straight-line method over the following useful lives:

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

**Compensated Absences** - The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**Long-term Obligations** - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

GAYLORD COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

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

**Defined Benefit Plan** - For purposes of measuring the net pension and other postemployment benefit liability, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits and pension and other postemployment benefits expense, information about the fiduciary net position of the Michigan Public School Employees Retirement Systems (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.

**Fund Equity** - The fund balance classifications are reported on the extent to which a government is bound to observe constraints imposed on the use of the resources in governmental funds. The fund balances are classified as nonspendable, restricted, committed, assigned and unassigned.

Nonspendable fund balance represents amounts that are not in a spendable form. The School District's nonspendable fund balance represents inventories and prepaid expenditures. In the fund financial statements, governmental funds report restrictions on fund balances for amounts that are legally restricted by outside parties for a specific purpose. Committed fund balance represents funds formally set aside by the School District for a particular purpose. The use of committed funds would be approved by the Board of Education through the budget process or official board action.

Assigned fund balance would represent tentative management plans that are subject to change which at the present time the School District does not have any assigned fund balance. The School District's intent would be to spend uncommitted/unassigned funds prior to the use of committed funds. When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

**Deferred Outflows and Inflows of Resources**

**Deferred outflows** - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. For district-wide financial statements, the School District reports deferred outflows of resources related to pensions and other postemployment benefits. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension and other postemployment benefits expense. Changes in assumptions relating to the net pension and other postemployment benefits liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. The School District also reported deferred outflows of resources for pension and other postemployment benefits contributions made after the measurement date. This amount will reduce the net pension and other postemployment benefits liability in the following year.

GAYLORD COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

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

**Deferred Inflows** - In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. For district-wide financial statements, the School District reports deferred inflows of resources related to pensions and other postemployment benefits. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension and other postemployment benefits expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. Deferred inflows of resources also includes revenue received relating to Section 147c state aid deferred to offset the deferred outflows related to Section 147c pension contributions subsequent to the measurement period.

**Use of Estimates** - The process of preparing the basic financial statements in conformity with U.S. 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.

**Property taxes** - For the taxpayers of the School District, properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1. The final collection date is February 28, after which uncollected taxes are added to the County delinquent tax rolls.

**GAYLORD COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

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

**State Aid** - For the fiscal year ended June 30, 2018, the State of Michigan adopted 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 districts based on information supplied by the districts. For the year ended June 30, 2018, the foundation allowance was based on the average pupil membership counts taken in February 2017 and September 2017.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2017 - August 2018. The local revenue is recognized as outlined in Note 1. Amounts receivable from the State of Michigan at June 30, 2018 relating to state aid is \$3,175,184.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**Events Occurring After Reporting Date**

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

**NOTE 2 - BUDGETS**

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of school districts prior to the expenditure of monies in a fiscal year.

**GAYLORD COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
For the Year Ended June 30, 2018

**NOTE 2 - BUDGETS (CONTINUED)**

Gaylord Community Schools follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board of Education a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board of Education throughout the year. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end and therefore cancels all encumbrances. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.

**NOTE 3 - CASH AND INVESTMENTS**

Some statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

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

	Governmental Funds	Internal Service Fund	Fiduciary Funds	Total Primary Government
Cash and Investments	\$ 6,514,261	\$ 133,316	\$ 609,600	\$ 7,257,177

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 5,063,166
Investment in interlocal agreement investment pools (i.e. MILAF) with a weighted average maturity of 1 day	2,194,011
Total	\$ 7,257,177

GAYLORD COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

The School District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. Two of the pooled investment funds utilized by the School District are the Michigan Investment Liquid Assets Fund Cash Mgmt Class and Max Class (MILAF). These are external pooled investment funds of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2018, the fair value of the School District's investments is the same as the value of the pool shares.

MILAF Cash Mgmt Class and Max Class funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. The MILAF (Max Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

Interest Rate Risk

In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2018, the School District's investment in the investment pool was rated AAA by Standard & Poor's.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2018, \$4,611,451 of the School District's bank balance of \$5,116,451 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The balance of the sweep accounts was used to purchase short-term federal debt securities.

Fair Value Measurement

The School District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

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

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

**GAYLORD COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the School District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

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

The School District does not have any investments subject to the fair value measurement.

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in governmental capital assets follows:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Disposals and</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2018</u>
Assets not being depreciated:				
Land	\$ 255,605	\$ 0	\$ (86,951)	\$ 168,654
Capital assets being depreciated:				
Buildings and improvements	48,806,863	897,799	0	49,704,662
Furniture and equipment	5,110,999	138,289	0	5,249,288
Buses and other vehicles	2,487,384	241,941	(281,306)	2,448,019
Subtotal	<u>56,405,246</u>	<u>1,278,029</u>	<u>(281,306)</u>	<u>57,401,969</u>
Accumulated depreciation:				
Buildings and improvements	23,729,359	1,054,432	0	24,783,791
Furniture and equipment	4,375,468	181,649	0	4,557,117
Buses and other vehicles	1,675,350	212,181	(281,306)	1,606,225
Subtotal	<u>29,780,177</u>	<u>1,448,262</u>	<u>(281,306)</u>	<u>30,947,133</u>
Net capital assets being depreciated	<u>26,625,069</u>	<u>(170,233)</u>	<u>0</u>	<u>26,454,836</u>
Net capital assets	<u>\$ 26,880,674</u>	<u>\$ (170,233)</u>	<u>\$ (86,951)</u>	<u>\$ 26,623,490</u>

Depreciation expense for fiscal year ended June 30, 2018 was \$1,448,262. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.



**GAYLORD COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

A summary of interfund receivable and payable balances at June 30, 2018 are as follows:

		Payables						
		General	Food Service	2013 Refunding	Sinking	Internal Service Fund	Green Fund	Total
Receivables	General	\$ 0	\$ 255	\$ 0	\$ 64,518	\$ 24,965	\$ 15,691	\$ 105,429
	Food Service	157,617	0	0	0	0	0	157,617
	2009 Debt	59,045	0	25,000	0	0	0	84,045
	2013 Refunding	120,539	0	0	0	0	0	120,539
	Green Fund	0	0	0	31,908	0	0	31,908
		<u>\$ 337,201</u>	<u>\$ 255</u>	<u>\$ 25,000</u>	<u>\$ 96,426</u>	<u>\$ 24,965</u>	<u>\$ 15,691</u>	<u>\$ 499,538</u>

A summary of interfund transfers made during the year ended June 30, 2018 are as follows:

<u>Transfers Out</u>	
<u>General Fund</u>	
Transfers In	Food Service Fund
	<u>\$ 17,959</u>

These interfund receivable and payable balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur; (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund transfers from the Food Service Fund to the General Fund were made for overhead cost reimbursements.

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2018 consist of accounts (fees), intergovernmental grants and interest.

A summary of the intergovernmental receivables (due from other governmental units) follows:

State aid and grants	\$ 3,175,184
Federal grants	357,817
Cheboygan - Otsego - Presque Isle ESD	212,799
	<u>\$ 3,745,800</u>

**NOTE 7 - UNEARNED REVENUE**

Governmental funds report unearned revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also reflect unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, grant and categorical aid payments received prior to meeting all eligibility requirements amounted to \$691,082.

**GAYLORD COMMUNITY SCHOOLS**  
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**NOTE 8 - LONG-TERM DEBT**

The following is a summary of governmental long-term obligations for the School District for the year ended June 30, 2018:

	Balance		Retirements	Balance	Amount Due
	<u>June 30, 2017</u>	<u>Additions</u>	<u>and Payments</u>	<u>June 30, 2018</u>	<u>Within One</u>
					<u>Year</u>
Bonds	\$ 11,140,000	\$ 0	\$ 2,645,000	\$ 8,495,000	\$ 2,730,000
Installment agreement	0	75,000	25,000	50,000	16,667
Compensated absences	574,241	0	87,514	486,727	0
Bond premium	414,967	0	106,563	308,404	106,563
	12,129,208	75,000	2,864,077	9,340,131	2,853,230
Other obligations reported in the Internal Service Fund	117,345	0	8,994	108,351	4,184
Total long-term obligations	<u>\$ 18,938,082</u>	<u>\$ 75,000</u>	<u>\$ 2,873,071</u>	<u>\$ 9,448,482</u>	<u>\$ 2,857,414</u>

Bonds payable at June 30, 2018 is comprised of the following issues:

\$19,875,000 2009 Refunding Bonds (General Obligation - Unlimited Tax) due in annual installment of \$885,000 to \$2,395,000 through May 2021; interest of 2.0% to 3%	\$ 4,390,000
\$6,000,000 2013 Refunding Bonds (General Obligation - Unlimited Tax) due in annual installments of \$165,000 to \$1,760,000 through May 2021; interest of 2.0% to 3.0%	<u>4,105,000</u>
Total Bonded Debt	<u>\$ 8,495,000</u>

\$75,000 installment purchase agreement due in monthly installments of \$2,083 through October 2020, interest at 0%. Balance as of June 30, 2018 was \$50,000.

Under terms of the present contract between the Board of Education of Gaylord Community Schools and the various employee groups, including teachers, administration, bus drivers and extra support personnel, the School District is contingently liable for compensated absences (sick and personal pay). The amount of compensated absences, calculated based on number of years of service, amounts to \$486,727 at June 30, 2018.

**GAYLORD COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
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**NOTE 8 - LONG-TERM DEBT (CONTINUED)**

The annual requirements to amortize bonds outstanding as of June 30, 2018, including interest payments are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 2,730,000	\$ 330,650	\$ 3,060,650
2020	2,825,000	236,750	3,061,750
2021	2,940,000	122,300	3,062,300
	<u>\$ 8,495,000</u>	<u>\$ 689,700</u>	<u>\$ 9,184,700</u>

**NOTE 9 - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical claims and participates in the SET-SEG risk pool for claims relating to workers' compensation, general liability, and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

The SET-SEG shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**

**Plan Description**

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

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

GAYLORD COMMUNITY SCHOOLS  
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**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**Benefits Provided - Overall**

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

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

**Benefits Provided - Pension**

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

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

**Pension Reform 2010**

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

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**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**Pension Reform 2012**

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

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

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

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

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

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

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

GAYLORD COMMUNITY SCHOOLS  
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**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

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

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

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

**Pension Reform of 2017**

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

GAYLORD COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**Benefits Provided – Other postemployment benefit (OPEB)**

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

**Retiree Healthcare Reform of 2012**

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

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

**Regular Retirement (no reduction factor for age)**

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

GAYLORD COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

**Member Contributions**

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

**Employer Contributions**

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

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

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

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

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

The School District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately \$4,753,000, with \$4,829,000 specifically for the Defined Benefit Plan.

The School District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total. OPEB benefits were approximately \$1,312,000, with \$1,253,000 specifically for the Defined Benefit Plan.



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Notes to Financial Statements  
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**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

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

**Pension Liabilities**

At June 30, 2018, the School District reported a liability of \$44,488,003 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the School District's proportion was 0.17167 and 0.16483 percent.

*MPSERS (Plan) Net Pension Liability - As of September 30, 2017:*

MPSERS (Plan) Non-University Employers:	September 30, 2017	September 30, 2016
Total Pension Liability	\$ 73,501,296,000	\$ 67,917,445,000
Plan Fiduciary Net Position	\$ 47,011,783,000	\$ 42,968,263,000
Net Pension Liability	\$ 26,489,513,000	\$ 24,949,182,000
Proportionate share	0.17167 %	0.16483 %
Net Pension liability for the School District	\$ 44,488,003	\$ 41,124,580

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

For the year ended June 30, 2018, the School District recognized pension expense of approximately \$3,849,000.

GAYLORD COMMUNITY SCHOOLS  
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**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Differences between expected and actual experience	\$ 386,631	\$ (218,293)
Net difference between projected and actual earnings on pension plan investments	0	(2,126,819)
Changes in assumptions	4,874,014	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,528,503	(555,835)
Unearned revenue related to pension portion of section 147 c	0	(2,134,277)
Reporting Unit contributions subsequent to the measurement date	<u>4,175,792</u>	<u>0</u>
<b>Total</b>	<u>\$ 10,964,940</u>	<u>\$ (5,035,224)</u>

\$4,175,792, reported as deferred outflows of resources related to pensions resulting from School District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

<b>Year Ended June 30</b>	<u>Amount</u>
2019	\$ 1,082,244
2020	1,796,158
2021	916,038
2022	93,761
	<u>\$ 3,888,201</u>

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**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

**OPEB Liabilities**

At June 30, 2018, the School District reported a liability of \$15,120,957 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The School District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the School District's proportion was 0.17075 and 0.17075 percent.

MPSERS (Plan) Non-University Employers:	September 30, 2017
Total OPEB Liability	\$ 14,175,547,000
Plan Fiduciary Net Position	\$ 5,177,775,000
Net OPEB Liability	\$ 8,997,772,000
Proportionate share	0.17075 %
Net OPEB liability for the School District	\$ 15,120,957

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

For the year ended June 30, 2018, the School District recognized OPEB expense of approximately \$550,000.

GAYLORD COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Difference between expected and actual experience	\$ 0	\$ (160,994)
Net difference between projected and actual plan investment	0	(350,205)
Changes of assumption	0	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,508	0
School District's contributions subsequent to the measurement date	<u>930,262</u>	<u>0</u>
<b>Total</b>	<u>\$ 931,770</u>	<u>\$ (511,199)</u>

\$930,262, reported as deferred outflows of resources related to OPEB resulting from School District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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

<b>Year Ended September 30</b>	<b>Amount</b>
2019	\$ (123,195)
2020	(123,195)
2021	(123,195)
2022	(123,195)
2023	(16,911)
	<u>\$ (509,691)</u>

**Actuarial Assumptions**

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

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**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

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

**Inflation** - 3.0%

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

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

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

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

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

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

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

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

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

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**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

<b>Investment Category</b>	<b>Target Allocation*</b>	<b>Long-Term Expected Real Rate of Return*</b>
Domestic Equity Pools	28.0%	5.6%
Alternate 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>	

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

**Pension Discount rate** - The discount rate used to measure the total pension liability was 7.5% (7% for Pension Plus Plan). This discount rate was based on the long-term rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

GAYLORD COMMUNITY SCHOOLS  
Notes to Financial Statements  
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**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

	<b>Pension</b>		
	<b>1% Decrease (6.5-6.0%)</b>	<b>Discount Rate (7.5-7.0%)</b>	<b>1% Increase (8.5-8.0%)</b>
School District's proportionate share of the net pension liability	<u>\$57,953,071</u>	<u>\$44,488,003</u>	<u>\$33,151,271</u>

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

	<b>Other postemployment benefit</b>		
	<b>1% Decrease (6.5%)</b>	<b>Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
School District's proportionate share of the net other postemployment benefit liability	<u>\$17,711,011</u>	<u>\$15,120,957</u>	<u>\$12,922,812</u>

GAYLORD COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

	<b>Other postemployment benefit</b>		
	<b>1% Decrease (6.5% decreasing to 2.5%)</b>	<b>Healthcare cost trend rates (7.5% decreasing to 3.5%)</b>	<b>1% Increase (8.5% decreasing to 4.5%)</b>
School District's proportionate share of the net OPEB liability	<u>\$12,805,418</u>	<u>\$15,120,957</u>	<u>\$17,750,090</u>

**Pension and OPEB Plan Fiduciary Net Position**

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

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

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



GAYLORD COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 11 - GRANTS**

The School District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the School District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. Based on prior experience, the School District administration believes such disallowance, if any, would be immaterial.

**NOTE 12 - ECONOMIC DEPENDENCY**

The School District received approximately 53% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

**NOTE 13 - SINKING FUND COMPLIANCE**

The Capital Projects Funds includes capital project activities funded with bonds issued after May1, 1994. For this capital project, the School District has complied with the applicable provisions of Section 1351a of the Revised School Code.

**NOTE 14 - NEW ACCOUNTING STANDARDS**

For the year ended June 30, 2018, the School District implemented the following new pronouncements:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

**Summary:**

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

GAYLORD COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 14 - NEW ACCOUNTING STANDARDS (CONTINUED)**

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

	Governmental activities
Net position (deficit) as previously stated, July 1, 2017	\$ (15,497,960)
Adoption of GASB Statement 75:	
Net other postemployment benefit liability	(15,949,259)
Deferred outflows	1,132,912
Deferred inflows	(466,642)
	(15,282,989)
Net position as restated, July 1, 2017	\$ (30,780,949)

**NOTE 15 - TAX ABATEMENTS**

Effective for the year ended June 30, 2017 the School District is required to disclose significant tax abatements as required by GASB statement 77 (Tax abatements).

The School District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions, Brownfield Redevelopment Agreements, and Payments in Lieu of Taxes (PILOT) granted by cities, villages and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield Redevelopment Agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties; PILOT programs apply to multiple unit housing for citizens of low income and the elderly.

The taxes abated for the General Fund operating millage is considered by the State of Michigan when determining the School District's section 22 funding of the State School Aid Act.

There are no significant abatements made by the School District.

GAYLORD COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 16 - UPCOMING ACCOUNTING PRONOUNCEMENT**

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

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

GAYLORD COMMUNITY SCHOOLS  
Required Supplemental Information  
Budgetary Comparison Schedule - General Fund  
For the Year Ended June 30, 2018

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Local Sources:				
Property taxes	\$ 10,006,526	\$ 10,411,243	\$ 10,459,624	\$ 48,381
Other local sources	577,994	497,132	778,370	281,238
State sources	17,037,145	17,116,284	17,590,611	474,327
Federal sources	685,102	944,928	813,944	(130,984)
Interdistrict and other sources	825,533	884,645	1,132,383	247,738
Total revenues	<u>29,132,300</u>	<u>29,854,232</u>	<u>30,774,932</u>	<u>920,700</u>
<u>Expenditures</u>				
Instruction:				
Basic programs	16,594,561	16,326,018	16,440,108	(114,090)
Added needs	4,014,523	3,992,182	4,007,805	(15,623)
Support services:				
Pupil	1,067,405	1,010,001	1,026,908	(16,907)
Instructional staff	693,965	752,825	740,154	12,671
General administrative	534,856	544,723	560,976	(16,253)
School administrative	1,748,641	1,790,370	1,837,910	(47,540)
Business services	379,693	413,399	385,600	27,799
Operations and maintenance	2,034,995	2,189,599	2,149,401	40,198
Transportation	1,312,562	1,493,889	1,501,586	(7,697)
Other central support services	775,142	798,087	787,676	10,411
Athletics	479,514	642,335	648,268	(5,933)
Community services	107,990	172,984	166,849	6,135
Facilities, acquisition, construction and improvements	9,000	32,700	40,225	(7,525)
Payments to other school districts	10,000	10,000	10,000	0
Total expenditures	<u>29,762,847</u>	<u>30,169,112</u>	<u>30,303,466</u>	<u>(134,354)</u>
Excess (deficiency) of revenues over expenditures	<u>(630,547)</u>	<u>(314,880)</u>	<u>471,466</u>	<u>786,346</u>
<u>Other Financing Sources (Uses)</u>				
Transfers in	50,000	50,000	0	(50,000)
Transfers out	(21,442)	(11,604)	(17,959)	(6,355)
Adjustments to prior period revenue accounts	0	0	(9,269)	(9,269)
Total other financing sources (uses)	<u>28,558</u>	<u>38,396</u>	<u>(27,228)</u>	<u>(65,624)</u>
Net change in fund balance	(601,989)	(276,484)	444,238	720,722
Fund balance - beginning of year	6,096,354	6,096,354	6,096,354	0
Fund balance - end of year	<u>\$ 5,494,365</u>	<u>\$ 5,819,870</u>	<u>\$ 6,540,592</u>	<u>\$ 720,722</u>

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

	<u><b>2017</b></u>	<u><b>2016</b></u>	<u><b>2015</b></u>	<u><b>2014</b></u>
Reporting unit's proportion of net pension liability (%)	0.17167 %	0.16483 %	0.16890 %	0.16797 %
Reporting unit's proportionate share of net pension liability	\$44,488,003	\$41,124,580	\$41,253,335	\$36,997,153
Reporting unit's covered-employee payroll*	\$14,701,166	\$13,751,681	\$14,057,495	\$14,158,047
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	33.04524 %	33.43908 %	34.07602 %	38.26794 %
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	64.21000 %	63.27000 %	62.92000 %	66.15000 %

\* The employer's covered payroll is defined by GASB 82, *Pension Issues - an amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 68 in 2015, the 10 year history will be provided prospectively until a full 10 year history is shown.

**GAYLORD COMMUNITY SCHOOLS**  
**Required Supplemental Information**  
**Schedule of the Reporting Unit's Pension Contributions**  
**Michigan Public School Employees Retirement Plan**  
Last 10 Reporting Unit Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 4,829,497	\$ 4,040,886	\$ 3,569,772	\$ 3,451,408
Contributions in relation to statutorily required contributions*	<u>4,829,497</u>	<u>4,040,886</u>	<u>3,569,772</u>	<u>3,451,408</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Reporting unit's covered-employee payroll**	\$14,252,739	\$14,410,947	\$14,039,448	\$14,547,790
Contributions as a percentage of covered-employee payroll	33.88 %	28.04 %	25.43 %	23.72 %

\* Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

\*\* The employer's covered payroll is defined by GASB 82, *Pension Issues - an amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based. For non-university employers, covered payroll for both pensions and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 68 in 2015, the 10 year history will be provided prospectively until a full 10 year history is shown.

**GAYLORD COMMUNITY SCHOOLS**  
**Required Supplemental 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)**

		<u><b>2017</b></u>
Reporting unit's proportion of net OPEB liability (%)		0.17075 %
Reporting unit's proportionate share of net OPEB liability	\$	15,120,957
Reporting unit's covered-employee payroll*	\$	14,701,166
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll		97.22378 %
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)		36.39000 %

\* The employer's covered payroll is defined by GASB 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 75 in 2018, the 10 year history will be provided prospectively until a full 10 year history is shown.

**GAYLORD COMMUNITY SCHOOLS**  
**Required Supplemental Information**  
**Schedule of the Reporting Unit's OPEB Contributions**  
**Michigan Public School Employees Retirement Plan**  
Last 10 Reporting Unit Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<b><u>2018</u></b>
Statutorily required contributions	\$ 1,252,863
Contributions in relation to statutorily required contributions*	<u>1,252,863</u>
Contribution deficiency (excess)	<u>\$ 0</u>
Reporting unit's covered-employee payroll**	\$14,252,739
Contributions as a percentage of covered-employee payroll	8.79 %

\* Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

\*\* The employer's covered payroll is defined by GASB 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 75 in 2018, the 10 year history will be provided prospectively until a full 10 year history is shown.



GAYLORD COMMUNITY SCHOOLS  
Notes to Required Supplementary Information  
For the Year Ended June 30, 2018

**Changes of benefit terms:** There were no changes of benefit terms in 2018.

**Changes of assumptions:** Assumption changes are a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

GAYLORD COMMUNITY SCHOOLS  
Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2018

	Special Revenue Fund		Debt Service Funds		Capital Projects Fund		Total
	Food Service	2009 Bond	2013 Bond	Green Fund	Sinking Fund		
<u>Assets</u>							
Cash	\$ 308,456	\$ 78,740	\$ 2,092	\$ 0	\$ 250,673	\$ 639,961	
Receivables:							
Accounts receivable	942	0	0	0	0	942	
Due from other funds	157,617	84,045	120,539	31,908	0	394,109	
Due from other governments	22,339	0	0	0	0	22,339	
Inventory	22,072	0	0	0	0	22,072	
Total assets	<u>\$ 511,426</u>	<u>\$ 162,785</u>	<u>\$ 122,631</u>	<u>\$ 31,908</u>	<u>\$ 250,673</u>	<u>\$ 1,079,423</u>	
<u>Liabilities and Fund Balance</u>							
<u>Liabilities</u>							
Accounts Payable	\$ 4,319	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,319	
Due to other funds	255	0	25,000	15,691	96,426	137,372	
Unearned revenue	19,020	0	0	0	0	19,020	
Total liabilities	<u>23,594</u>	<u>0</u>	<u>25,000</u>	<u>15,691</u>	<u>96,426</u>	<u>160,711</u>	
<u>Fund Balance</u>							
Non-spendable - inventory	22,072	0	0	0	0	22,072	
Restricted for debt service	0	162,785	97,631	0	0	260,416	
Restricted for capital projects	0	0	0	16,217	154,247	170,464	
Restricted for food service	465,760	0	0	0	0	465,760	
Total fund balance	<u>487,832</u>	<u>162,785</u>	<u>97,631</u>	<u>16,217</u>	<u>154,247</u>	<u>918,712</u>	
	<u>\$ 511,426</u>	<u>\$ 162,785</u>	<u>\$ 122,631</u>	<u>\$ 31,908</u>	<u>\$ 250,673</u>	<u>\$ 1,079,423</u>	

GAYLORD COMMUNITY SCHOOLS  
Other Supplemental Information  
Combining Statement of Revenues, Expenditures  
and Changes in Fund Balance - Nonmajor Governmental Funds  
For the Year Ended June 30, 2018

	Special Revenue Fund	Debt Service Funds		Capital Projects Fund		Total
	Food Service	2009 Bond	2013 Bond	Green Fund	Sinking Fund	
<u>Revenues</u>						
Local Sources:						
Property taxes	\$ 0	\$ 1,055,805	\$ 1,963,686	\$ 0	\$ 1,146,597	\$ 4,166,088
Other local sources	761,951	884	803	56,908	11,526	832,072
State sources	112,536	0	0	0	0	112,536
Federal sources	996,108	0	0	0	0	996,108
Total revenues	<u>1,870,595</u>	<u>1,056,689</u>	<u>1,964,489</u>	<u>56,908</u>	<u>1,158,123</u>	<u>6,106,804</u>
<u>Expenditures</u>						
Current:						
Food services	1,786,040	0	0	0	0	1,786,040
Support service:						
Business services	0	5,158	4,758	0	3,471	13,387
Facilities, acquisition, construction and improvement	0	0	0	90,441	0	90,441
Debt service:						
Principal	0	885,000	1,760,000	25,000	0	2,670,000
Interest and other	0	240,675	176,114	250	0	417,039
Capital outlay	0	0	0	0	1,580,320	1,580,320
Total expenditures	<u>1,786,040</u>	<u>1,130,833</u>	<u>1,940,872</u>	<u>115,691</u>	<u>1,583,791</u>	<u>6,557,227</u>
Excess (deficiency) of revenues over expenditures	<u>84,555</u>	<u>(74,144)</u>	<u>23,617</u>	<u>(58,783)</u>	<u>(425,668)</u>	<u>(450,423)</u>
<u>Other Financing Sources (Uses)</u>						
Transfers in	17,959	0	0	0	0	17,959
Proceeds from debt issuance	0	0	0	75,000	0	75,000
Total other financing sources (uses)	<u>17,959</u>	<u>0</u>	<u>0</u>	<u>75,000</u>	<u>0</u>	<u>92,959</u>
Net change in fund balance	102,514	(74,144)	23,617	16,217	(425,668)	(357,464)
Fund balance - beginning of year	385,318	236,929	74,014	0	579,915	1,276,176
Fund balance - end of year	<u>\$ 487,832</u>	<u>\$ 162,785</u>	<u>\$ 97,631</u>	<u>\$ 16,217</u>	<u>\$ 154,247</u>	<u>\$ 918,712</u>

GAYLORD COMMUNITY SCHOOLS  
 Other Supplemental Information  
 Schedule of Bonded Indebtedness  
 For the Year Ended June 30, 2018

<u>PURPOSE</u>	The 2009 general obligation bonds were issued to refund the 1998 school improvement bonds and the 2001 energy conservation improvement bonds.		
<u>DATE OF ISSUE</u>	February 11, 2009		
<u>AMOUNT OF ISSUE</u>			\$ 19,875,000
<u>AMOUNT OF REDEEMED</u>			
	During prior years	\$ 14,600,000	
	During current years	<u>885,000</u>	<u>15,485,000</u>
<u>BALANCE OUTSTANDING - June 30, 2018</u>			<u>\$ 4,390,000</u>

<u>Fiscal Year</u>	<u>Requirements</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,200,000	\$ 207,500	\$ 1,407,500
2020	1,485,000	159,500	1,644,500
2021	<u>1,705,000</u>	<u>85,250</u>	<u>1,790,250</u>
	<u>\$ 4,390,000</u>	<u>\$ 452,250</u>	<u>\$ 4,842,250</u>

**GAYLORD COMMUNITY SCHOOLS**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**For the Year Ended June 30, 2018**

<u>PURPOSE</u>	The 2013 general obligation bonds were issued to refund of the 2003 refunding bonds.		
<u>DATE OF ISSUE</u>	February 13, 2013		
<u>AMOUNT OF ISSUE</u>			\$ 6,600,000
<u>AMOUNT OF REDEEMED</u>			
	During prior years	\$ 735,000	
	During current years	<u>1,760,000</u>	<u>2,495,000</u>
<u>BALANCE OUTSTANDING - June 30, 2018</u>			<u>\$ 4,105,000</u>
		<u>Requirements</u>	
<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,530,000	\$ 123,150	\$ 1,653,150
2020	1,340,000	77,250	1,417,250
2021	<u>1,235,000</u>	<u>37,050</u>	<u>1,272,050</u>
	<u>\$ 4,105,000</u>	<u>\$ 237,450</u>	<u>\$ 4,342,450</u>



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

October 16, 2018

Board of Education  
Gaylord Community Schools  
Gaylord, Michigan

We have audited, in accordance with U.S. generally accepted auditing standards 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, the major fund and the aggregate remaining fund information of Gaylord Community Schools (School District), as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise Gaylord Community Schools' basic financial statements and have issued our report thereon dated October 16, 2018.

### Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies: 2018-001 and 2018-002.



Board of Education  
Gaylord Community Schools  
October 16, 2018

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Gaylord Community Schools financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002.

**Response to Findings**

Gaylord Community Schools response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Gaylord Community Schools response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

*Weinlander Fitzhugh*



## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

October 16, 2018

To the Board of Education  
Gaylord Community Schools  
Gaylord, Michigan

### **Report on Compliance for Each Major Federal Program**

We have audited Gaylord Community Schools compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Gaylord Community Schools major federal programs for the year ended June 30, 2018. Gaylord Community Schools major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Gaylord Community Schools major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Gaylord Community Schools compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Gaylord Community Schools compliance.





Board of Education  
Gaylord Community Schools  
October 16, 2018

## ***Opinion on Each Major Federal Program***

In our opinion, Gaylord Community Schools, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

## **Report on Internal Control Over Compliance**

Management of Gaylord Community Schools, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Gaylord Community Schools internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Gaylord Community Schools internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis.

*A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-003 to be a significant deficiency.

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

Gaylord Community Schools response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Gaylord Community Schools response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



# WEINLANDER FITZHUGH

Board of Education  
Gaylord Community Schools  
October 16, 2018

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Weinlander Fitzhugh*

GAYLORD COMMUNITY SCHOOLS  
 Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018

**SECTION I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified opinion

Internal control over financial reporting:

- Material weakness(es) identified?  YES  NO
- Significant deficiency(ies) identified?  YES  NONE REPORTED

Noncompliance material to financial statements noted?  YES  NO

**Federal Awards**

Internal Control over major programs:

- Material weakness(es) identified?  YES  NO
- Significant deficiency(ies) identified?  YES  NONE REPORTED

Type of auditor's report issued on compliance of major programs: Unmodified opinion

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  YES  NO

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553	Nutrition Cluster
10.555	
10.559	

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?  YES  NO

GAYLORD COMMUNITY SCHOOLS  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018

**SECTION II - Financial Statement Findings**

**2018-001**

Criteria or Specific Requirement

School District's have controls in place to properly reflect anticipated revenues and expenditures, based on historical information, in the budget.

Condition

The School District incurred budget violations in its major fund revenue and expenditure accounts.

Context

The budget was used to monitor financial performance and reasonableness of financial reports.

Effect

The revenues and expenditures were not being monitored in comparison to actual and expected.

Recommendation

The School District should implement procedures to monitor activity and amend its funds required to adopt budgets in accordance with standards established by the State of Michigan.

Views of the Responsible Officials and Planned Corrective Action

The business manager will more closely monitor the budgeting process. Refer to our corrective action plan for additional information.

GAYLORD COMMUNITY SCHOOLS  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018

**2018-002**

Criteria or Specific Requirement

Establishment and maintenance of internal control over bank reconciliation process.

Condition

Internal controls related to the bank reconciliation process were not performed for the entire year.

Context

The finding is a result of observation and inquiry with School District administration.

Effect

The School District did not timely reconcile all bank accounts. This is a weakness in the internal control structure that would not detect an error. The School District's audit was delayed until they could hire qualified person to reconcile a year's worth of cash activity. This process was essential to verify completeness of the accounting records.

Recommendation

The School District's financial administration should review internal controls over the bank reconciliation process. This review should include verifying that all bank accounts are reconciled and agreed to the general ledger on a monthly basis.

Views of the Responsible Officials and Planned Corrective Action

The School District will employ a Business Manager with the accounting responsibilities in order that all bank accounts may be reconciled on a monthly basis. The Superintendent will monitor on a monthly basis. Refer to our corrective action plan for additional information.

GAYLORD COMMUNITY SCHOOLS  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018

**SECTION III - Federal Award Findings and Questioned Costs**

**2018-003**

Program

Nutrition Cluster CFDA Number 10.553, 10.555, 10.559

Criteria

The School District should internal controls in place to ensure employees are being paid correct amounts..

Condition

Internal controls related to payroll were not consistent and employees were paid incorrect amounts.

Questioned costs

None

Cause/Effect

The School District's Payroll Specialist was not consistent when entering "contract" amounts for the food service staff. Some amounts included longevity pay and some did not. This resulted in some employees being overpaid during the year. With the food service staff being hourly and paid based on an estimated "contract" amount, there is manual adjustments to hours each pay. This manual adjusted resulted in employees being over (under) paid during the year. The amounts were corrected by the end of the fiscal year.

Recommendation

We recommend that the School District pay hourly employees for actual hours worked during the year, not based on estimated hours worked that are entered as a "contract" and paid over 24 pays and adjusted each pay for actual hours worked.

Views of the Responsible Officials and Planned Corrective Action

The new payroll specialist is aware of the errors made by the previous payroll specialist. Hours will be closely watched when 2018-2019 "contracts" are entered. Payroll hours will be more closely watched ensure employees are being paid correctly. Also, discussions are happening to move hourly employees to be paid truly based on actual hours worked. Refer to our corrective action plan for additional information.

GAYLORD COMMUNITY SCHOOLS  
Summary Schedule of Prior Year Findings  
For the Year Ended June 30, 2018

There were no matters reported in the prior year's audit.

**GAYLORD COMMUNITY SCHOOLS**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2018**

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at June 30, 2017	Adjustments	Federal Funds/ Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2018
Clusters:								
U.S. Department of Agriculture -								
Passed through the Michigan Department of Education:								
Noncash Assistance (Commodities) -								
National School Lunch Program:								
Entitlement Commodities	10.555	\$ 96,186	\$ 0	\$ 0	\$ 0	\$ 96,186	\$ 96,186	\$ 0
Cash Assistance:								
National School Breakfast Program:								
171970-1617	10.553	165,736	149,157	9,349	0	25,928	16,579	0
181970-1718		159,799	0	0	0	159,799	159,799	0
National School Lunch Program:								
171960-1617	10.555	638,085	570,148	31,385		99,322	67,937	0
171980-1617		14,838	13,008	708	0	2,538	1,830	0
181960-1718		604,190	0	0	0	604,190	604,190	0
181980-1718		12,098	0	0	0	12,098	12,098	0
National School Summer Program:								
170900-1617	10.559	33,305	7,495	7,495	0	33,305	25,810	0
171900-1617		3,479	783	783	0	3,479	2,696	0
180900-1718		28,286	0	0	0	0	8,130	8,130
181900-1718		2,968	0	0	0	0	853	853
Cash Assistance Subtotal		1,662,784	740,591	49,720	0	940,659	899,922	8,983
Total Child Nutrition Cluster		1,758,970	740,591	49,720	0	1,036,845	996,108	8,983
Total U. S. Department of Agriculture		1,758,970	740,591	49,720	0	1,036,845	996,108	8,983
Other federal awards:								
U.S. Department of Health and Human Services -								
Passed through Cheboygan-Otsego-Presque Isle ISD								
Medical Assistance Program Title XIX 2017-2018	93.778	5,653	0	0	0	5,653	5,653	0
Total U.S. Department of Health and Human Services		5,653	0	0	0	5,653	5,653	0

See accompanying notes to schedule of expenditures of federal awards



**GAYLORD COMMUNITY SCHOOLS**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2018**

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at June 30, 2017	Adjustments	Federal Funds/ Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2018
U.S. Department of Education -								
Passed through Michigan Department of Education								
Title I, Part A:								
Project number 161530-1516	84.010	\$ 605,879	\$ 421,000	\$ 0	\$ (234)	\$ (234)	\$ 0	\$ 0
Project number 171530-1617		719,498	554,978	94,353	0	194,209	99,856	0
Project number 181530-1718		603,844	0	0	0	316,811	593,107	276,296
Total Title I, Part A		1,929,221	975,978	94,353	(234)	510,786	692,963	276,296
Title II A - Improving Teacher Quality:								
Project number 160520-1516	84.367	133,654	133,654	0	(9,035)	(9,035)	0	0
Project number 170520-1617		118,668	65,050	52,549	0	53,369	820	0
Project number 180520-1718		117,145	0	0	0	2,400	67,938	65,538
Total Title II A Improving Teacher Quality		369,467	198,704	52,549	(9,035)	46,734	68,758	65,538
Title IV, Part A - Student Support and Academic Enrichment:								
Project number 180750-1718	84.424	10,000	0	0	0	3,000	10,000	7,000
Total U.S. Department of Education programs passed through the MDE		2,308,688	1,174,682	146,902	(9,269)	560,520	771,721	348,834
Passed through Cheboygan-Otsego-Presque Isle ISD								
IDEA Part B	84.027	480	0	0	0	480	480	0
Homeless Children and Youths	84.196	1,153	0	0	0	1,153	1,153	0
Passed through Alpena Public Schools Career and Technical Education 2017-2018								
	84.048	34,937	0	0	0	34,937	34,937	0
Total U.S. Department of Education programs		2,345,258	1,174,682	146,902	(9,269)	597,090	808,291	348,834
Total federal awards		<b>\$ 4,109,881</b>	<b>\$ 1,915,273</b>	<b>\$ 196,622</b>	<b>\$ (9,269)</b>	<b>\$ 1,639,588</b>	<b>\$ 1,810,052</b>	<b>\$ 357,817</b>

See accompanying notes to schedule of expenditures of federal awards

GAYLORD COMMUNITY SCHOOLS  
Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2018

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

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of Gaylord Community Schools under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Gaylord Community Schools, it is not intended to and does not present the financial position or changes in net position of Gaylord Community Schools.

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the Schedule represent adjustments or credit made in the normal course of business to amounts reported as expenditures.

The School District has elected not to use the 10 percent de minimus indirect cost rate to recover costs as allowed under the Uniform Guidance.

The School District does not have any subrecipients.

**NOTE 2 - OTHER DISCLOSURES**

Management has utilized the Cash Management System Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

The schedule of expenditures of federal awards reflects adjustments in revenue of \$234 for the Title I, Part A program and \$9,035 for the Title II, Part A program. These reductions are due to monies recovered as a result of the program audit by the MDE auditors.



# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

October 16, 2018

Board of Education  
Gaylord Community Schools  
Gaylord, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Gaylord Community Schools (School District) for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under U.S. generally accepted auditing standards, 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 July 9, 2018. Professional standards also require that we communicate to you the following information related to our audit.

## **Significant Audit Matters**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Gaylord Community Schools are described in Note 1 to the financial statements. During 2018, the School District implemented Governmental Accounting Standard Board No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The application of existing policies was not changed during 2018. We noted no transactions entered into by the School District 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 District's financial statements were:

Estimates have been used to calculate the net pension liability and the net other postemployment benefit liability.

Management's estimate of depreciation is based on the estimated useful life of fixed assets. We evaluated the key factors and assumptions used to develop the estimated useful life of fixed assets in determining that depreciation is reasonable in relation to the financial statements taken as a whole.

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.



Board of Education  
Gaylord Community Schools  
October 16, 2018  
Page 2

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. 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 October 16, 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 Gaylord Community Schools financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

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

### **Other Matters**

We applied certain limited procedures to the management's discussion and analysis, budgetary comparison schedules, pension schedules and other postemployment benefits schedules, which are 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.



# WEINLANDER FITZHUGH

Board of Education  
Gaylord Community Schools  
October 16, 2018  
Page 3

We were engaged to report on the combining nonmajor fund financial statements, schedules of bonded indebtedness and the schedule of expenditures of federal awards, 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 U.S. generally accepted accounting principles, 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.

A separate management letter was not issued.

## **Restriction on Use**

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

Very truly yours

*Weinlander Fitzhugh*

# GAYLORD COMMUNITY SCHOOLS

An NCA Accredited School District



## CORRECTIVE ACTION PLAN June 30, 2018

Finding	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
<p>2018-001</p> <p>Actual expenditures exceeded the amounts authorized in the budget.</p>	<p>The School District had an oversight on the budget. We will review our anticipated expenditures to the budget amounts for each required fund throughout the year. This comparison will be used to make budget amendments as necessary prior to June 30, 2019.</p>	<p>06/30/2019</p>	<p>Director of Finance</p>
<p>2018-002</p> <p>Internal controls related to the bank reconciliation process were not performed in a timely manner.</p>	<p>The School District will assign the bank reconciliation duties to a specific individual that best provides for internal controls. The bank reconciliations will be monitored by the Director of Finance for timeliness of completion.</p>	<p>Immediate Implementation</p>	<p>Director of Finance</p>
<p>2018-003</p> <p>Internal controls related to payroll contracts were not consistent.</p>	<p>The school district will implement additional internal controls to help ensure employees are being paid accurately. The Director of Finance will continue to move the School District toward paying hourly employees based on actual hours worked for each pay period.</p>	<p>Immediate Implementation</p>	<p>Director of Finance</p>