

KINGSTON COMMUNITY SCHOOLS
Kingston, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and
additional supplementary information)
YEAR ENDED JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Kingston Community Schools
Kingston, Michigan 48741

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 Kingston Community Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 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 Kingston Community Schools as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kingston Community Schools' basic financial statements. The additional supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2018 on our consideration of Kingston Community Schools' 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 Kingston Community Schools' 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 Kingston Community Schools' internal control over financial reporting and compliance.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CARO, MICHIGAN

October 29, 2018

Kingston Community Schools Management's Discussion and Analysis

Kingston Community School District, a K-12 school district located in Tuscola County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Kingston Community School District administration's discussion and analysis of the financial results for the fiscal years ended June 30, 2018 and June 30, 2017.

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

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue Funds, Debt Service Funds, and Capital Projects Fund.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures.

The obligations for future years' debt service are not recorded in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements are required by GASB 34. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. All of the District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt of the District.

Kingston Community Schools
Management's Discussion and Analysis

Summary of Net Position

The following schedule summarizes the net position at fiscal year ended June 30, 2018 and 2017:

Assets	<u>6/30/2018</u>	<u>6/30/2017</u>
Current assets	\$ 7,052,606	\$ 3,401,906
Capital assets (net of depreciation)	<u>5,509,028</u>	<u>5,232,970</u>
Total assets	<u>12,561,634</u>	<u>8,634,876</u>
Deferred Outflows of Resources		
Related to other postemployment benefits	195,266	-
Related to pensions	<u>2,332,024</u>	<u>1,468,284</u>
Total deferred outflows of resources	<u>2,527,290</u>	<u>1,468,284</u>
Liabilities		
Current liabilities	1,662,139	2,137,263
Net pension liability	9,323,098	8,815,130
Net other postemployment benefit liabilities	3,182,950	-
Long-term liabilities	<u>6,980,529</u>	<u>2,369,454</u>
Total liabilities	<u>21,148,716</u>	<u>13,321,847</u>
Deferred Inflows of Resources		
Related to pensions	510,870	46,179
Related to other postemployment benefits	107,607	-
Related to state aid funding for pension and other postemployment benefits	441,902	277,248
Deferred gain on bond refunding	<u>48,520</u>	<u>53,496</u>
Total deferred inflows of resources	<u>1,108,899</u>	<u>376,923</u>
Net Position		
Net investment in capital assets	2,827,466	1,387,484
Restricted for:		
Debt service	139,239	976,876
Woloshen	88,290	109,201
Unrestricted	<u>(10,223,686)</u>	<u>(6,069,171)</u>
Total net position	<u>\$ (7,168,691)</u>	<u>\$ (3,595,610)</u>

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

Analysis of Financial Position

During the fiscal year ended June 30, 2018, the District's net position decreased by \$369,148. A few of the more significant factors affecting net position during the year are discussed below.

1. Net Pension Liability & Net OPEB Liability

Beginning June 30, 2015, GASB 68 requires school districts to estimate and record its portion of the employee's net pension liability. The district's net pension liability was increased from \$8,815,130 at June 30 2017 to the net pension liability of \$9,323,098 as of June 30, 2018. Beginning June 30, 2018, GASB 75 requires school districts to estimate and record its portion of net OPEB liability. As of June 30, 2018 the net OPEB liability was \$3,182,950. This impacts the government wide statements only, not individual funds.

Kingston Community Schools Management's Discussion and Analysis

2. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net position.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal years ended June 30, 2018 and June 30, 2017, \$430,751 and \$434,697 were recorded for depreciation expense.

3. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2018, \$706,809 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is an increase to capital assets in the amount of \$276,058 for the fiscal year ended June 30, 2018.

Results of Operations

For the fiscal year ended June 30, 2018 and 2017, the results of operations, on a District-wide basis, were:

	Year Ended June 30, 2018		Year Ended June 30, 2017	
	Amount	% of Total	Amount	% of Total
General Revenues				
Property Taxes	\$ 917,149	13.43%	\$ 874,831	12.66%
Investment earnings	53,104	0.78%	22,560	0.33%
State sources	4,010,665	58.73%	4,186,234	60.56%
Other	139,017	2.04%	167,350	2.42%
Total general revenues	<u>5,119,935</u>	<u>74.97%</u>	<u>5,250,975</u>	<u>75.96%</u>
Program Revenues				
Charges for services	212,305	3.11%	208,804	3.02%
Operating grants	1,496,676	21.92%	1,452,997	21.02%
Total revenues	<u>6,828,916</u>	<u>100.00%</u>	<u>6,912,776</u>	<u>100.00%</u>
Expenses				
Instruction	3,692,130	51.29%	3,614,939	51.19%
Support services	2,184,982	30.36%	2,348,153	33.25%
Community services	137,197	1.91%	150,698	2.13%
Food services	403,360	5.60%	399,561	5.66%
Interest on long-term debt	120,458	1.67%	82,079	1.16%
Capital outlay	156,503	2.17%	-	0.00%
Unallocated depreciation expense	430,751	5.98%	434,697	6.16%
Other	72,683	1.01%	31,157	0.44%
Total expenses	<u>7,198,064</u>	<u>100.00%</u>	<u>7,061,284</u>	<u>100.00%</u>
Change in net position	<u>\$ (369,148)</u>		<u>\$ (148,508)</u>	

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

Kingston Community Schools

Management's Discussion and Analysis

Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levied 18.0000 mills of property taxes for operations on non-homestead properties. According to Michigan law, the taxable levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2017-2018 fiscal year, the district levied \$399,944 non-homestead property taxes. This represented an increase of \$26,695 from the prior year.

The following table summarizes the non-homestead property tax levies for operations for the past five years:

Fiscal Year	Non-homestead Tax Levy	Increase (Decrease) from prior year
2017 – 2018	\$399,944	\$26,695
2016 - 2017	376,249	32,616
2015 - 2016	343,633	(5,548)
2014 - 2015	349,181	22,825
2013 - 2014	326,356	5,916

2. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 90% of the current year's fall count and 10% of the prior year's spring count. For the 2017-2018 fiscal year, the District's foundation allowance was \$7,631 per student FTE, which was \$120 more than the amount received in the 2016-2017 fiscal year.

3. Student Enrollment

The following schedule lists the actual blended student FTE for the past five fiscal years:

2017 – 2018	587
2016 -- 2017	615
2015 -- 2016	649
2014 -- 2015	631
2013 -- 2014	623

4. Operating Grants

The District funds a significant portion of its operations with categorical sources. For the fiscal year ended June 30, 2018, federal, state and other operating grants accounted for \$1,496,676. This represents an increase of \$43,679 over the total grant sources received for the 2016-2017 fiscal year.

Kingston Community Schools Management's Discussion and Analysis

5. Interest Earnings

The District received interest on its investments in the amount of \$53,104 for the fiscal year ended June 30, 2018. This represents an increase over the prior fiscal year of \$30,544.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1st. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30th.

For the 2017-2018 fiscal year, the district amended the general fund budget two times with the Board adopting the final changes in June 2018. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	Original Budget	Final Budget	Actual	Variance with Final Budget positive (negative)	% Variance
Total revenues	<u>\$ 5,920,850</u>	<u>\$ 5,934,577</u>	<u>\$ 5,937,676</u>	<u>\$ 3,099</u>	<u>0.05%</u>
Expenditures					
Instruction	\$ 3,563,130	\$ 3,503,813	\$ 3,623,128	\$ (119,315)	-3.41%
Supporting services	2,238,297	2,222,878	2,179,968	42,910	1.93%
Other	177,918	194,693	196,934	(2,241)	-1.15%
Total expenditures	<u>\$ 5,979,345</u>	<u>\$ 5,921,384</u>	<u>\$ 6,000,030</u>	<u>\$ (78,646)</u>	<u>-1.33%</u>

Capital Asset and Debt Administration

Capital Assets

By the end of the 2017-2018 fiscal year, the district had invested \$14,028,378 in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents an increase of \$646,809. Depreciation expense for the year amounted to \$430,751, bringing the total accumulated depreciation to \$8,519,350 as of June 30, 2018.

Long-term Debt

At June 30, 2018, the District had \$7,299,670 in long-term debt outstanding. This represents an increase of \$3,471,075 over the amount outstanding at the close of the prior fiscal year. This is due to the 2018 bond issuance for the capital projects fund.

Kingston Community Schools

Management's Discussion and Analysis

Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future.

- In the long-term, student count appears to be trending downward, this could affect our financial health.
- As with other employers, the District continues to face increases in rates paid for employee benefits, particularly for health insurance and retirement.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact:

Matt Drake, Superintendent
Kingston Community Schools
5790 State St.
Kingston, MI 48741
(989) 683-2294

BASIC FINANCIAL STATEMENTS

KINGSTON COMMUNITY SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2018

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and cash equivalents	\$ 1,265,423
Investments	64,968
Accounts receivable	4,441
Intergovernmental receivables	1,093,224
Cash - restricted capital projects	11
Investments - restricted capital projects	4,624,539
Capital assets not being depreciated	669,548
Capital assets, net of accumulated depreciation	4,839,480
TOTAL ASSETS	12,561,634
DEFERRED OUTFLOWS OF RESOURCES	
Related to other postemployment benefits	195,266
Related to pensions	2,332,024
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,527,290
LIABILITIES	
Accounts payable	679,710
Accrued salaries and related items	437,161
Accrued retirement	153,157
Accrued interest payable	72,970
Noncurrent liabilities:	
Due within one year	319,141
Due in more than one year	6,980,529
Net other postemployment benefit liabilities	3,182,950
Net pension liability	9,323,098
TOTAL LIABILITIES	21,148,716
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	510,870
Related to other postemployment benefit liabilities	107,607
Related to state aid funding for pension and other postemployment benefit	441,902
Deferred gain on bond refunding, net of amortization	48,520
TOTAL DEFERRED INFLOWS OF RESOURCES	1,108,899
NET POSITION	
Net investment in capital assets	2,827,466
Restricted for debt service	139,239
Restricted for special revenue (Woloshen)	88,290
Unrestricted	(10,223,686)
TOTAL NET POSITION	\$ (7,168,691)

See notes to financial statements.

KINGSTON COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		Governmental Activities
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
Governmental activities:				
Instruction	\$3,692,130	\$ 76,964	\$ 834,508	\$ (2,780,658)
Support services	2,184,982	71,434	357,647	(1,755,901)
Community service	137,197	-		(137,197)
Food services	403,360	63,907	304,521	(34,932)
Public library	33,513			(33,513)
Woloshen	25,219			(25,219)
Interest on long-term debt	120,458			(120,458)
Capital outlay	156,503			(156,503)
Other	13,951			(13,951)
Unallocated depreciation	430,751			(430,751)
Total governmental activities	<u>\$7,198,064</u>	<u>\$ 212,305</u>	<u>\$ 1,496,676</u>	<u>(5,489,083)</u>
General revenues:				
Property taxes, levied for general purposes				424,673
Property taxes, levied for debt service				492,476
State of Michigan school aid unrestricted				4,010,665
Investment earnings				53,104
Penal fines				23,407
Other				115,610
Total general revenue				<u>5,119,935</u>
Change in net position				(369,148)
Net position, beginning of year, as restated				<u>(6,799,543)</u>
Net position, end of year				<u>\$ (7,168,691)</u>

See notes to financial statements.

KINGSTON COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	GENERAL FUND	FOOD SERVICE	QZAB DEBT	2018 CAPITAL PROJECTS	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>						
Cash and cash equivalents	\$ 952,242	\$ 37,486	\$ -		\$ 275,695	\$ 1,265,423
Investments	-		3,371		61,597	64,968
Accounts receivable	824	1,100			2,517	4,441
Due from other funds	33,505				3,093	36,598
Intergovernmental receivables	1,080,569	12,655				1,093,224
Cash - restricted capital projects				\$ 11		11
Investments - restricted capital projects				4,624,539		4,624,539
TOTAL ASSETS	<u>\$ 2,067,140</u>	<u>\$ 51,241</u>	<u>\$ 3,371</u>	<u>\$ 4,624,550</u>	<u>\$ 342,902</u>	<u>\$ 7,089,204</u>
<u>LIABILITIES & FUND BALANCE</u>						
LIABILITIES:						
Accounts payable	\$ 44,845	\$ -	\$ -	\$ 634,776	\$ 89	\$ 679,710
Accrued salaries and related items	437,161	-				437,161
Accrued retirement	153,157				-	153,157
Due to other funds	3,094	-	3,371		30,133	36,598
TOTAL LIABILITIES	<u>638,257</u>	<u>-</u>	<u>3,371</u>	<u>634,776</u>	<u>30,222</u>	<u>1,306,626</u>
FUND BALANCE:						
Restricted for:						
Debt service			-		212,209	212,209
Capital projects				3,989,774		3,989,774
Food service		32,590			-	32,590
Public library					5,466	5,466
Woloshen					71,871	71,871
Assigned for:						
Compensated absences	42,078					42,078
Subsequent year expenditures		18,651			23,134	41,785
Unassigned	1,386,805					1,386,805
TOTAL FUND BALANCE	<u>1,428,883</u>	<u>51,241</u>	<u>-</u>	<u>3,989,774</u>	<u>312,680</u>	<u>5,782,578</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 2,067,140</u>	<u>\$ 51,241</u>	<u>\$ 3,371</u>	<u>\$ 4,624,550</u>	<u>\$ 342,902</u>	<u>\$ 7,089,204</u>

See notes to financial statements.

KINGSTON COMMUNITY SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total Fund Balances - Governmental Funds **\$ 5,782,578**

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

Deferred outflows of resources - related to pensions	2,332,024
Deferred outflows of resources - related to other postemployment benefits	195,266
Deferred inflows of resources - related to pensions	(510,870)
Deferred inflows of resources - related to other postemployment benefits	(107,607)
Deferred inflows of resources - related to state pension and other postemployment benefit funding	(441,902)
Deferred inflows of resources - gain on refunding, net of amortization	(48,520)

Capital assets used in governmental activities are not financial resources and are not reported in the funds

The cost of the capital assets is:	14,028,378
Accumulated depreciation is:	(8,519,350)

Long term liabilities are not due and payable in the current period and are not reported in the funds

Long term debt obligations	(7,257,592)
Compensated absences	(42,078)
Accrued interest is not reported as a liability in governmental funds; it is recorded when paid	(72,970)
Net other postemployment benefit liability	(3,182,950)
Net pension liability	<u>(9,323,098)</u>

Net Position of Governmental Activities **\$(7,168,691)**

KINGSTON COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	GENERAL FUND	FOOD SERVICE	QZAB DEBT	2018 CAPITAL PROJECTS	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Local sources						
Property taxes	\$ 424,673	\$ -	\$ -	\$ -	\$ 492,476	\$ 917,149
Charges for services	148,398	63,907			-	212,305
Investment earnings	245	-	24,866	27,886	107	53,104
Other	76,277	6,877			27,715	110,869
State sources	4,897,176	26,672			4,370	4,928,218
Federal sources	362,759	277,849			-	640,608
Other transactions:						
Payments from ISD	28,148					28,148
TOTAL REVENUES	5,937,676	375,305	24,866	27,886	524,668	6,890,401
EXPENDITURES:						
Instruction	3,623,128					3,623,128
Supporting services	2,179,968					2,179,968
Community services	135,128					135,128
Food service		399,222				399,222
Public library					32,478	32,478
Woloshen					25,219	25,219
Capital outlay				835,651		835,651
Debt services:						
Principal payments	59,141		1,000,000		400,000	1,459,141
Interest	2,665				78,443	81,108
Fees and bond issuance costs				12,948	1,003	13,951
TOTAL EXPENDITURES	6,000,030	399,222	1,000,000	848,599	537,143	8,784,994
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(62,354)	(23,917)	(975,134)	(820,713)	(12,475)	(1,894,593)
OTHER FINANCING SOURCES (USES):						
Proceeds from bond issuance	-			4,685,000		4,685,000
Bond discount				(23,987)		(23,987)
Bond premium				270,574		270,574
Transfers to other funds	(54,430)	-	-	(121,100)		(175,530)
Transfers from other funds	-		54,430	-	121,100	175,530
TOTAL OTHER FINANCING SOURCES (USES)	(54,430)	-	54,430	4,810,487	121,100	4,931,587
NET CHANGE IN FUND BALANCES	(116,784)	(23,917)	(920,704)	3,989,774	108,625	3,036,994
FUND BALANCES - BEGINNING OF YEAR	1,545,667	75,158	920,704	-	204,055	2,745,584
FUND BALANCES - END OF YEAR	\$ 1,428,883	\$ 51,241	\$ -	\$3,989,774	\$ 312,680	\$ 5,782,578

See notes to financial statements.

KINGSTON COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Total net change in fund balances--governmental funds **\$ 3,036,994**

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation:

Depreciation expense	(430,751)
Capital outlay	65,461
Construction in progress	641,348

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences in the treatment of long-term debt and related items is as follows:

Payments on debt	1,459,141
Issuance of debt	(4,931,587)
Amortization of bond premium	9,439
Amortization of bond discount	(2,595)
Amortization of deferred gain	4,976

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources.

Accrued interest payable at the beginning of the year	21,800
Accrued interest payable at the end of the year	(72,970)

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

Accrued absences at the beginning of the year	36,605
Accrued absences at the end of the year	(42,078)

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

Other postemployment benefit related items	5,473
Pension related items	(108,919)

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

State aid funding for pension and other postemployment benefits	<u>(61,485)</u>
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Change in net position of governmental activities **\$ (369,148)**

See notes to financial statements.

KINGSTON COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2018

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 112,570
TOTAL ASSETS	<u>\$ 112,570</u>
<u>LIABILITIES</u>	
Due to student organizations	\$ 112,570
TOTAL LIABILITIES	<u>\$ 112,570</u>

See notes to financial statements.

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

DESCRIPTION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. All fiduciary activities are reported only in the fund statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

REPORTING ENTITY:

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

BASIS OF PRESENTATION – GOVERNMENT-WIDE FINANCIAL STATEMENTS:

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements.

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

BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS:

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category – government and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

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

The *food service fund* accounts for revenue sources that are legally restricted to expenditures for food service for students.

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

The *2018 capital projects fund* accounts for financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The *2018 capital projects fund* includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of section 1351a of the Revised School Code.

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
Year Ended June 30, 2018

Beginning with the year of bond issuance, the District has reported the annual construction activity in the *2018 capital projects fund*. The projects for which the 2018 bonds were issued were in process as of June 30, 2018 and the cumulative revenues and expenditures recognized for the construction period were as follows:

	2018
Revenue and other financing sources	\$ 4,983,460
Expenditures and outgoing transfers	\$ 993,686

Revenues and other financing sources include the net bond proceeds of \$4,955,574.

OTHER NON-MAJOR FUNDS

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

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its library and the Woloshen account in the special revenue funds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

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

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in the fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING:

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. 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.

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

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
Year Ended June 30, 2018

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

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end).

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

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exception (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The State revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30th is reported as an intergovernmental receivable.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measurable and available only when cash is received by the District.

The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

BUDGETARY INFORMATION:

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund. Capital projects funds are appropriated on a project-length basis. Other funds do not have appropriated budgets.

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

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

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
Year Ended June 30, 2018

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Violations, if any, in the general fund and food service fund are noted in the required supplementary information section.
4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to the year ended June 30th.

ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE:

1. Cash and cash equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

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

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

3. Inventories and prepaid items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
Year Ended June 30, 2018

4. Capital assets

Capital assets, which include property, plant equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of two years. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

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

Land and construction in progress, if any, are not depreciated. The other property, plant, and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

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

5. Defined benefit plan

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

6. Deferred outflows/inflows of resources

Deferred outflow:

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

Deferred inflow:

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has four items that qualifies for reporting in this category. One is the deferred gain on bond refunding reported in the government-wide statement of net position. A deferred gain on bond refunding results from the unamortized difference between the carrying amount of redeemed or defeased debt and its reacquisition price. The first is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension and other postemployment benefit contributions subsequent to the measurement period. The second and third items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary.

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
Year Ended June 30, 2018

7. Net position flow assumption

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

8. Fund balance flow assumptions

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

9. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of the resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The board of education is the highest level of decision-making authority for the District that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The board of education may also assign fund balances as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

REVENUES AND EXPENDITURES/EXPENSES:

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements for a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
Year Ended June 30, 2018

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

<u>FUND</u>	<u>MILLS</u>
General Fund:	
Non-Principle Residence Exemption (PRE)	18.00
Commercial Personal Property	6.00
Debt Service Fund:	
PRE, Non-PRE, Commercial Personal Property	5.62

3. Compensated absences

The District's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary and related benefits, where applicable.

4. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 2 – DEPOSITS AND INVESTMENTS:

At June 30, 2018, the District had the following investments:

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
Federated Treasury obligations - money market	3,371	0.0027	AAAm	0.07%
MILAF - MAX Class	4,624,539	0.0027	AAAm	98.61%
Publicly traded mutual funds:				
Edward Jones	61,597	0.0027	n/a	1.31%
Total fair value	<u>\$4,689,507</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.0027</u>		
1 day maturity equals 0.0027, one year equals 1.00				

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

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
Year Ended June 30, 2018

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

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

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

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2018, \$767,037 of the District's bank balance of \$1,544,230 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. The carrying value on the books for deposits at the end of the year was \$1,378,004.

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

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

The District's Guaranteed Investment Contract is collateralized and invested for the purpose of paying off the QZAB Bonds as disclosed in Note 5. That was paid in full during the year ended June 30, 2018.

The Investment Agreement, dated as of November 1, 2002, by and among Bank of New York Trust Company, as the Depository on behalf of both the participating Michigan School District and the Michigan Municipal Bond Authority, and Wachovia Bank, as Provider.

The net proceeds from the sale of the School Improvement Bonds were loaned by the Authority to Michigan School Districts. Such Loans are to be repaid with annual set-a-side installments deposited with the Depository for investment under the Investment Agreement. Set-a-side installments are deposited under the Investment Agreement versus Permitted Investments (collateral securities) equaling at least 103% of the deposited amount and such Permitted Investments are held by the Depository in a fiduciary capacity.

The Guaranteed Rate under this Investment Agreement (commonly referred to as guaranteed investment contract-GIC or collateralized investment agreement-CIA) is 2.60% (simple interest actual days elapsed over a 365-day year).

The Guarantor is Wachovia Bank, as guarantor of the Provider's obligations under this Investment Agreement.

Fair value measurement. The 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:

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
Year Ended June 30, 2018

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.

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 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 Edward Jones mutual funds are subject to the fair value measurement and are level 1.

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

The above amounts as previously reported in Note 2:

Deposits - including fiduciary funds of \$112,570	\$	1,378,004
Investments		4,689,507
	\$	6,067,511

The above amounts are reported in the financial statements as follows:

Cash - District wide	\$	1,265,434
Cash - Agency fund		112,570
Investments - District wide		4,689,507
	\$	6,067,511

NOTE 3 – INTERGOVERNMENTAL RECEIVABLES:

Intergovernmental receivables at June 30, 2018 consist of the following:

State Aid	\$	883,174
Federal		210,050
Total		\$ 1,093,224

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

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

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
Year Ended June 30, 2018

NOTE 4 –CAPITAL ASSETS:

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

	<u>BALANCE</u> <u>July 1, 2017</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>June 30, 2018</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 28,200	\$ -	\$ -	\$ 28,200
Construction in progress		641,348	-	641,348
Total capital assets, not being depreciated	<u>28,200</u>	<u>641,348</u>	<u>-</u>	<u>669,548</u>
Capital assets being depreciated:				
Building and Improvements	11,454,235	37,800		11,492,035
Furniture and equipment	1,899,134	27,661	(60,000)	1,866,795
Total capital assets being depreciated	<u>13,353,369</u>	<u>65,461</u>	<u>(60,000)</u>	<u>13,358,830</u>
Accumulated depreciation:				
Building and Improvements	(6,678,853)	(326,338)		(7,005,191)
Furniture and equipment	(1,469,746)	(104,413)	60,000	(1,514,159)
Total accumulated depreciation	<u>(8,148,599)</u>	<u>(430,751)</u>	<u>60,000</u>	<u>(8,519,350)</u>
Capital assets being depreciated	<u>5,204,770</u>	<u>(365,290)</u>	<u>-</u>	<u>4,839,480</u>
Total governmental capital assets	<u>\$ 5,232,970</u>	<u>\$ 276,058</u>	<u>\$ -</u>	<u>\$ 5,509,028</u>

Depreciation for the fiscal year ended June 30, 2018 amounted to \$430,751. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5- LONG TERM DEBT:

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of the changes in liabilities reported in the long- term obligations for the District:

	<u>Bus</u> <u>installment</u> <u>purchase</u>	<u>Tractor</u> <u>installment</u> <u>purchase</u>	<u>General</u> <u>obligation</u> <u>bonds</u>	<u>QZAB</u> <u>bonds</u>	<u>Compensated</u> <u>absences</u>	<u>Total</u>
Balance, July 1, 2017	\$ 119,693	\$ 14,840	\$ 2,657,457	\$ 1,000,000	\$ 36,605	\$ 3,828,595
Additions			4,931,587		5,473	4,937,060
Deletions	(51,721)	(7,420)	(406,844)	(1,000,000)		(1,465,985)
Balance, June 30, 2018	67,972	7,420	7,182,200	-	42,078	7,299,670
Due within one year	(51,721)	(7,420)	(260,000)			(319,141)
Due in more than one year	<u>\$ 16,251</u>	<u>\$ -</u>	<u>\$ 6,922,200</u>	<u>\$ -</u>	<u>\$ 42,078</u>	<u>\$ 6,980,529</u>

KINGSTON COMMUNITY SCHOOLS
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As of June 30, 2018, the school district had the following long-term debt outstanding:

2012 general obligation refunding bonds due in annual installments of \$195,000 to \$250,000 through May 1, 2028 with interest at 2.00% to 3.125%	\$ 2,230,000
2018 school building and site bond due in annual installments of \$60,000 to \$485,000 through May 1, 2037 with interest at 2.00% to 4.00%	4,685,000
Tractor note - 5 annual payments of \$7,420 from April 1, 2015 through 2019 with interest at 1.99%.	7,420
Bus note - 5 annual payments of \$35,476 from August 1, 2014 through 2018 with interest at 1.98%.	35,470
Bus note - 5 annual payments of \$16,251 from August 27, 2015 through 2019 with interest at 1.96%.	32,502
Obligation under contract for compensated absences	42,078
Plus: premium on bond issuance, net	312,007
Less: discount on bond issuances, net	<u>(44,807)</u>
Total long-term debt	<u>\$ 7,299,670</u>

Interest expense for all funds for the year ended June 30, 2018 was \$81,108.

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account, assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2018, \$2,345,000 of bonds outstanding are considered defeased.

The annual requirements to amortize the long-term obligations as of June 30, 2018 are as follows:

Year ending June 30,	Principal	Interest	Total
2019	\$ 319,141	\$ 280,630	\$ 599,771
2020	291,251	241,985	533,236
2021	300,000	234,162	534,162
2022	305,000	224,213	529,213
2023	320,000	214,112	534,112
2024-2028	1,730,000	915,963	2,645,963
2029-2033	1,900,000	599,000	2,499,000
2034-2037	1,825,000	186,200	2,011,200
	6,990,392	<u>\$2,896,265</u>	<u>\$9,886,657</u>
Premium on bonds	312,007		
Discount on bonds	(44,807)		
Accumulated compensated absences	42,078		
Total long-term debt	<u>\$7,299,670</u>		

A fund balance amount of \$212,209 is available in the debt service fund to service the general obligation debt.

KINGSTON COMMUNITY SCHOOLS
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NOTE 6 – RETIREMENT AND POSTEMPLOYMENT BENEFITS:

Plan Description

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

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

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

Benefits Provided - Overall

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the plans offered by MPERS 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 Plan 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 (MPERS) who became a member of MPERS 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 Plan members.

KINGSTON COMMUNITY SCHOOLS
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Pension Reform 2012

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

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

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

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

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

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

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

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

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

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

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

KINGSTON COMMUNITY SCHOOLS
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Pension Reform of 2017

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

Benefits Provided – Other postemployment benefit (OPEB)

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

Retiree Healthcare Reform of 2012

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

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 - 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 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus (PPP) members, age 60 with 10 years of credited service.

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

KINGSTON COMMUNITY SCHOOLS
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Member Contributions

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

Employer Contributions

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

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

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

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

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

The District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately \$954,934, with \$944,354 specifically for the Defined Benefit Plan.

The District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total. OPEB benefits were approximately \$237,937, with \$228,323 specifically for the Defined Benefit Plan.

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

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

Pension Liabilities

At June 30, 2018, the District reported a liability of \$9,323,098 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the District's proportion was .03598 and .03533 percent.

<u>MPSERS (Plan) Non-university employers:</u>	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Total Pension Liability	\$ 72,407,218,688	\$ 67,917,445,078
Plan Fiduciary Net Position	\$ 46,492,967,573	\$ 42,968,263,308
Net Pension Liability	\$ 25,914,251,115	\$ 24,949,181,770
Proportionate Share	0.003598%	0.003533%
Net Pension Liability for the District	\$ 9,323,098	\$ 8,815,130

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

For the year ended June 30, 2018, the District recognized pension expense of \$1,073,097.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Changes of assumptions	\$ 1,021,419	
Net difference between projected and actual plan investment earnings		\$ (445,705)
Differences between expected and actual experience	81,024	(45,746)
Changes in proportion and differences between employer contributions and proportionate share of contributions	340,812	(19,419)
District's contributions subsequent to the measurement date	888,769	
	<u>\$ 2,332,024</u>	<u>\$ (510,870)</u>

\$888,769, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

Year ended September 30,	Amount
2018	\$ 276,584
2019	433,742
2020	224,039
2021	(1,980)

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

OPEB Liabilities

At June 30, 2018, the District reported a liability of \$3,182,950 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017, the District's proportion was 0.03594 percent.

<i>MPSERS (Plan) Non-university employees</i>	September 30, 2017
Total Other Postemployment Benefit Liability	\$ 13,920,945,991
Plan Fiduciary Net Position	\$ 5,065,474,948
Net Other Postemployment Benefit Liability	\$ 8,855,471,043
Proportionate Share	0.03594%
Net Other Postemployment Benefit Liability for the District	\$ 3,182,950

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$213,169.

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

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 1,201	
Difference between expected and actual experience		\$ (33,889)
Net difference between projected and actual earnings on OPEB plan investments		(73,718)
Reporting Unit contributions subsequent to the measurement date	194,065	
Total	\$ 195,266	\$ (107,607)

\$194,065, reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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

Year ended September 30,	Amount
2018	\$(25,734)
2019	(25,734)
2020	(25,734)
2021	(25,734)
2022	(3,470)

Actuarial Assumptions

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

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

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

Inflation – 3.0%

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

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

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

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

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

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

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

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

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

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

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term expected real rate of return*</u>
Domestic equity pools	28.00%	5.60%
Private equity pools	18.00%	8.70%
International equity	16.00%	7.20%
Fixed income pools	10.50%	-0.10%
Real estate and infrastructure pools	10.00%	4.20%
Absolute return pools	15.50%	5.00%
Short term investment pools	2.00%	-0.90%
	<u>100.00%</u>	

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

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

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

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

	Pension		
	1% Decrease (6.5% / 6.0%)	Discount Rate (7.5% / 7.0%)	1% Increase (8.5% / 8.0%)
Reporting Unit's proportionate share of the net pension liability	\$ 12,144,895	\$ 9,323,098	\$ 6,947,324

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

	Other Postemployment Benefit		
	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Reporting Unit's proportionate share of the net other postemployment benefit liability	\$ 3,728,155	\$ 3,182,950	\$ 2,720,242

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

	Other Postemployment Benefit		
	1% Decrease (6.5% decreasing to 2.5%)	Healthcare cost trend rates (7.5% decreasing to 3.5%)	1% Increase (8.5% decreasing to 4.5%)
Reporting Unit's proportionate share of the net other postemployment benefit liability	\$ 2,695,531	\$ 3,182,950	\$ 3,736,381

Pension and OPEB Plan Fiduciary Net Position

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

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
Year Ended June 30, 2018

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

Other Information

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

NOTE 7 – INTERFUND RECEIVABLES AND PAYABLES:

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

<u>Receivable Fund</u>	<u>Payable Fund</u>			<u>Total</u>
	<u>QZAB Debt Fund</u>	<u>General Fund</u>	<u>Nonmajor Funds</u>	
General Fund	\$ 3,371		\$ 30,133	\$ 33,504
Nonmajor Funds		\$ 3,094		3,094
Total	\$ 3,371	\$ 3,094	\$ 30,133	\$ 36,598

NOTE 8 - RISK MANAGEMENT:

The District is exposed to risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. With regard to injuries to employees, the District participates in an association of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The association is considered a public entity risk sharing pool. The District pays annual premiums to the association for its workers' disability compensation coverage. In the event the association's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the policy year may be subject to special assessment to make up the difference. The association maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required. The program is recorded in the general fund. The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

The District is self insured for dental and vision claims. All plans have limits of amounts for expenditures that will be reimbursed. This program is recorded in the general fund. Any liability for incurred and unreported claims is not considered material.

Settlements have not exceeded coverage for each of the past three fiscal years. Changes in the balances of claims liabilities during the past three years have been immaterial.

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
Year Ended June 30, 2018

NOTE 9 – TRANSFERS:

The transfers between funds for the fiscal year ended June 30, 2018 were as follows:

	TO	FROM
General Fund		\$ 54,430
QZAB Bond Fund	\$ 54,430	
2018 Capital Projects		121,100
Nonmajor Governmental Funds	121,100	
	\$ 175,530	\$ 175,530

The transfer to the QZAB Bond Fund was for note repayment set aside requirements. The transfer from the 2018 capital projects fund to the 2018 debt fund was for the first interest payment of the bond.

NOTE 10 – COPIER LEASE:

The School District entered into a 5 year lease in January 2013 for copiers and printers at a monthly cost of \$1,023. The School District also entered into a 5 year lease in November 2015 for copiers and printers at a monthly cost of \$1,955. The School District entered into a 5 year lease in June 2018 for copiers and printers at a monthly cost of \$1,995. The leases give the School District the option to purchase the leased equipment at the end of the lease term at the then fair market value. The future lease commitments under these leases are as follows:

	Lease
Year ending June 30, 2019	\$ 23,945
Year ending June 30, 2020	23,945
Year ending June 30, 2021	23,945
Year ending June 30, 2022	23,945
Year ending June 30, 2023	23,945
Total	\$ 119,725

NOTE 11 - TAX ABATEMENTS:

The District is required to disclose significant tax abatements as a required by GASB Statement 77, *Tax Abatements*.

The District receives reduced property tax revenues as a result of Industrial Facilities Tax Exemptions granted by cities, villages and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities. The District did not have any property taxes abated under any of these programs.

There are no significant abatements made by the District.

KINGSTON COMMUNITY SCHOOLS
Notes to Financial Statements
Year Ended June 30, 2018

NOTE 12 – NEW ACCOUNTING STANDARDS:

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

Summary:

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

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

	Governmental Activities
Net position as previously stated July 1, 2017	\$ (3,595,610)
Adoption of GASB Statement 75:	
Net other postemployment benefit liability	(3,357,307)
Deferred outflows	256,543
Deferred inflows	(103,169)
Net position, as restated July 1, 2017	\$ (6,799,543)

NOTE 13 – UPCOMING ACCOUNTING PRONOUNCEMENT:

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

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

REQUIRED SUPPLEMENTARY INFORMATION

KINGSTON COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2018

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES				
Local sources				
Property taxes	\$ 329,519	\$ 404,101	\$ 424,673	\$ 20,572
Charges for services	125,000	144,150	148,398	4,248
Investment earnings	150	177	245	68
Other	110,000	120,926	76,277	(44,649)
State sources	5,000,470	4,892,100	4,897,176	5,076
Federal sources	355,711	373,123	362,759	(10,364)
Other transactions:				
Payments from ISD	<u> </u>	<u>-</u>	<u>28,148</u>	<u>28,148</u>
TOTAL REVENUES	<u>5,920,850</u>	<u>5,934,577</u>	<u>5,937,676</u>	<u>3,099</u>
EXPENDITURES				
Instruction				
Basic programs	2,925,243	2,890,780	3,035,716	(144,936)
Added needs	637,887	613,033	587,412	25,621
Total Instruction	<u>3,563,130</u>	<u>3,503,813</u>	<u>3,623,128</u>	<u>(119,315)</u>
Supporting Services				
Pupil services	239,777	244,087	244,141	(54)
Staff services	65,277	52,145	57,308	(5,163)
General administration	194,913	198,249	195,042	3,207
School administration	391,101	409,246	386,873	22,373
Business services	138,239	137,880	138,121	(241)
Operations and maintenance	593,613	567,099	565,851	1,248
Pupil transportation	272,558	294,531	294,531	-
Central services	186,557	159,494	137,936	21,558
Athletic activities	156,262	160,147	160,165	(18)
Total Supporting Services	<u>2,238,297</u>	<u>2,222,878</u>	<u>2,179,968</u>	<u>42,910</u>
Community Services				
Cardinal center	110,450	123,942	126,183	(2,241)
Drivers education	8,000	8,945	8,945	-
Total Community Services	<u>118,450</u>	<u>132,887</u>	<u>135,128</u>	<u>(2,241)</u>
Debt Service				
Principal on bus loan	56,803	59,141	59,141	-
Interest on bus loan	2,665	2,665	2,665	-
Total Debt Service	<u>59,468</u>	<u>61,806</u>	<u>61,806</u>	<u>-</u>
TOTAL EXPENDITURES	5,979,345	5,921,384	6,000,030	(78,646)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(58,495)</u>	<u>13,193</u>	<u>(62,354)</u>	<u>(75,547)</u>
OTHER FINANCING SOURCES (USES):				
Transfer to other funds	<u>(57,800)</u>	<u>(57,800)</u>	<u>(54,430)</u>	<u>3,370</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(57,800)</u>	<u>(57,800)</u>	<u>(54,430)</u>	<u>3,370</u>
NET CHANGE IN FUND BALANCES	<u>\$ (116,295)</u>	<u>\$ (44,607)</u>	(116,784)	<u>\$ (72,177)</u>
FUND BALANCE - BEGINNING OF YEAR			<u>1,545,667</u>	
FUND BALANCE - END OF YEAR			<u>\$ 1,428,883</u>	

KINGSTON COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FOOD SERVICE
YEAR ENDED JUNE 30, 2018

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES				
Local sources				
Charges for services	\$ 75,000	\$ 64,613	\$ 63,907	\$ (706)
Other	3,730	5,731	6,877	1,146
State sources	29,167	29,167	26,672	(2,495)
Federal sources	<u>267,392</u>	<u>281,276</u>	<u>277,849</u>	<u>(3,427)</u>
TOTAL REVENUES	<u>375,289</u>	<u>380,787</u>	<u>375,305</u>	<u>(5,482)</u>
EXPENDITURES				
School Services:				
Salaries and wages	116,780	125,748	120,720	5,028
Employee benefits	60,611	64,515	64,507	8
Purchased services	5,015	7,065	7,060	5
Food	193,442	204,145	204,245	(100)
Miscellaneous	<u>2,650</u>	<u>2,690</u>	<u>2,690</u>	<u>-</u>
TOTAL EXPENDITURES	<u>378,498</u>	<u>404,163</u>	<u>399,222</u>	<u>4,941</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(3,209)</u>	<u>(23,376)</u>	<u>(23,917)</u>	<u>(541)</u>
NET CHANGE IN FUND BALANCES	<u>\$ (3,209)</u>	<u>\$ (23,376)</u>	(23,917)	<u>\$ (541)</u>
FUND BALANCE - BEGINNING OF YEAR			<u>75,158</u>	
FUND BALANCE - END OF YEAR			<u>\$ 51,241</u>	

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.03598%	0.03533%	0.03370%	0.03372%
Reporting unit's proportionate share of net pension liability	\$ 9,323,098	\$ 8,815,130	\$ 8,230,540	\$ 7,426,546
Reporting unit's covered-employee payroll	\$ 3,008,660	\$ 3,044,610	\$ 2,892,890	\$ 2,889,316
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	309.88%	289.53%	284.51%	257.03%
Plan fiduciary net position as a percentage of total pension liability	64.21%	63.27%	63.17%	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 944,354	\$ 833,209	\$ 719,670	\$ 615,073
Contributions in relation to statutorily required contributions	<u>944,354</u>	<u>833,209</u>	<u>719,670</u>	<u>615,073</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 2,910,769	\$ 3,010,295	\$ 2,983,514	\$ 2,900,710
Contributions as a percentage of covered-employee payroll	32.44%	27.68%	24.12%	21.20%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

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

	2017
Reporting unit's proportion of net OPEB liability (%)	0.03594%
Reporting unit's proportionate share of net OPEB liability	\$ 3,182,950
Reporting unit's covered-employee payroll	\$ 3,008,660
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	105.79%
Plan fiduciary net position as a percentage of total OPEB liability (Non-University Employers)	36.39%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

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

	2018
Statutorily required contributions	\$ 228,323
Contributions in relation to statutorily required contributions	228,323
Contribution deficiency (excess)	\$ -
Reporting unit's covered-employee payroll	\$ 2,910,769
Contributions as a percentage of covered-employee payroll	7.84%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

KINGSTON COMMUNITY SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018

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

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

ADDITIONAL SUPPLEMENTARY INFORMATION

KINGSTON COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2018

	<u>GOVERNMENTAL FUND TYPES</u>		TOTAL NONMAJOR FUNDS
	<u>SPECIAL REVENUE</u>	<u>DEBT SERVICE</u>	
<u>ASSETS</u>			
Cash and equivalents	\$ 66,574	\$ 209,121	\$ 275,695
Investments	61,597	-	61,597
Accounts receivable	2,517	-	2,517
Due from other funds	-	3,093	3,093
TOTAL ASSETS	<u>\$ 130,688</u>	<u>\$ 212,214</u>	<u>\$ 342,902</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Accounts payable	\$ 89	\$ -	\$ 89
Due to other funds	30,128	5	30,133
TOTAL LIABILITIES	<u>30,217</u>	<u>5</u>	<u>30,222</u>
 <u>FUND BALANCES</u>			
Restricted for:			
Debt service		212,209	212,209
Public library	5,466		5,466
Woloshen	71,871		71,871
Assigned for:			
Subsequent year expenditures	23,134	-	23,134
TOTAL FUND BALANCES	<u>100,471</u>	<u>212,209</u>	<u>312,680</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 130,688</u>	<u>\$ 212,214</u>	<u>\$ 342,902</u>

KINGSTON COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2018

	GOVERNMENTAL FUND TYPES		TOTAL
	SPECIAL REVENUE	DEBT SERVICE	NONMAJOR FUNDS
REVENUES			
Local sources			
Property taxes	\$ -	\$ 492,476	\$ 492,476
Investment earnings	-	107	107
Other	27,715	-	27,715
State sources	4,370	-	4,370
TOTAL REVENUES	32,085	492,583	524,668
EXPENDITURES			
Salaries and wages	15,366	-	15,366
Employee benefits	6,296	-	6,296
Purchased services	2,179	-	2,179
Supplies	31,191	-	31,191
Capital outlay	733	-	733
Miscellaneous	1,932	-	1,932
Debt Service:			
Principal payments	-	400,000	400,000
Interest	-	78,443	78,443
Fees	-	1,003	1,003
TOTAL EXPENDITURES	57,697	479,446	537,143
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(25,612)	13,137	(12,475)
OTHER FINANCING SOURCES (USES):			
Transfer from other funds	-	121,100	121,100
NET CHANGE IN FUND BALANCES	(25,612)	134,237	108,625
FUND BALANCES BEGINNING OF YEAR	126,083	77,972	204,055
FUND BALANCES END OF YEAR	\$ 100,471	\$ 212,209	\$ 312,680

KINGSTON COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
JUNE 30, 2018

	PUBLIC LIBRARY FUND	WOLOSHEN	TOTAL SPECIAL REVENUE FUNDS
<u>ASSETS</u>			
Cash and cash equivalents	\$ 39,381	\$ 27,193	\$ 66,574
Investments	-	61,597	61,597
Accounts receivable	2,517		2,517
TOTAL ASSETS	\$ 41,898	\$ 88,790	\$ 130,688
 <u>LIABILITIES & FUND BALANCES</u>			
LIABILITIES:			
Accounts payable	\$ 89	\$ -	\$ 89
Due to other funds	29,628	500	30,128
TOTAL LIABILITIES	29,717	500	30,217
 FUND BALANCES:			
Restricted for:			
Public library	5,466		5,466
Woloshen		71,871	71,871
Assigned for:			
Subsequent year expenditures	6,715	16,419	23,134
TOTAL FUND BALANCES	12,181	88,290	100,471
TOTAL LIABILITIES & FUND BALANCES	\$ 41,898	\$ 88,790	\$ 130,688

KINGSTON COMMUNITY SCHOOLS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2018

	<u>PUBLIC LIBRARY FUND</u>	<u>WOLOSHEN</u>	<u>TOTAL SPECIAL REVENUE FUNDS</u>
REVENUES:			
Local sources:			
Other	\$ 23,407	\$ 4,308	\$ 27,715
State sources	4,370		4,370
TOTAL REVENUES	<u>27,777</u>	<u>4,308</u>	<u>32,085</u>
EXPENDITURES:			
Salaries and wages	15,366		15,366
Employee benefits	6,296		6,296
Purchased services	1,954	225	2,179
Supplies	6,197	24,994	31,191
Capital outlay	733		733
Miscellaneous	1,932		1,932
TOTAL EXPENDITURES	<u>32,478</u>	<u>25,219</u>	<u>57,697</u>
NET CHANGE IN FUND BALANCES	(4,701)	(20,911)	(25,612)
FUND BALANCES BEGINNING OF YEAR	<u>16,882</u>	<u>109,201</u>	<u>126,083</u>
FUND BALANCES END OF YEAR	<u>\$ 12,181</u>	<u>\$ 88,290</u>	<u>\$ 100,471</u>

KINGSTON COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
JUNE 30, 2018

	2018 DEBT	2012 REFUNDING DEBT	2005 DEBT	TOTAL DEBT SERVICE
<u>ASSETS</u>				
Cash and cash equivalents	\$ 121,129	\$ 60,310	\$ 27,682	\$ 209,121
Due from other funds	-	2,428	665	3,093
TOTAL ASSETS	\$ 121,129	\$ 62,738	\$ 28,347	\$ 212,214
 <u>LIABILITIES & FUND BALANCES</u>				
LIABILITIES:				
Due to other funds	\$ 5	-	-	\$ 5
TOTAL LIABILITIES	5	-	-	5
FUND BALANCES:				
Restricted for debt service	121,124	62,738	28,347	212,209
TOTAL FUND BALANCES	121,124	62,738	28,347	212,209
TOTAL LIABILITIES & FUND BALANCES	\$ 121,129	\$ 62,738	\$ 28,347	\$ 212,214

KINGSTON COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2018

	<u>2018 DEBT</u>	<u>2012 REFUNDING DEBT</u>	<u>2005 DEBT</u>	<u>TOTAL DEBT SERVICE</u>
REVENUES:				
Local sources:				
Property taxes	\$ -	\$ 308,780	\$ 183,696	\$ 492,476
Investment earnings	24	52	31	107
	<u>24</u>	<u>308,832</u>	<u>183,727</u>	<u>492,583</u>
TOTAL REVENUES	<u>24</u>	<u>308,832</u>	<u>183,727</u>	<u>492,583</u>
EXPENDITURES:				
Principal payments	-	230,000	170,000	400,000
Interest	-	71,813	6,630	78,443
Fees	-	200	803	1,003
	<u>-</u>	<u>302,013</u>	<u>177,433</u>	<u>479,446</u>
TOTAL EXPENDITURES	<u>-</u>	<u>302,013</u>	<u>177,433</u>	<u>479,446</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>24</u>	<u>6,819</u>	<u>6,294</u>	<u>13,137</u>
OTHER FINANCING SOURCES (USES):				
Transfer from other funds	<u>121,100</u>	<u>-</u>	<u>-</u>	<u>121,100</u>
NET CHANGE IN FUND BALANCES	121,124	6,819	6,294	134,237
FUND BALANCES BEGINNING OF YEAR	<u>-</u>	<u>55,919</u>	<u>22,053</u>	<u>77,972</u>
FUND BALANCES END OF YEAR	<u>\$ 121,124</u>	<u>\$ 62,738</u>	<u>\$ 28,347</u>	<u>\$ 212,209</u>

KINGSTON COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT - 2012 REFUNDING BONDS
June 30, 2018

PRINCIPAL DUE MAY 1	RATE	INTEREST DUE		DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
		MAY 1	NOVEMBER 1	JUNE 30	AMOUNT
\$ 200,000	3.000	\$ 33,606	\$ 33,606	2019	\$ 267,212
200,000	3.000	30,606	30,607	2020	261,213
205,000	3.000	27,606	27,606	2021	260,212
210,000	3.000	24,531	24,532	2022	259,063
220,000	3.000	21,381	21,381	2023	262,762
225,000	3.000	18,081	18,082	2024	261,163
235,000	3.000	14,706	14,706	2025	264,412
240,000	3.000	11,181	11,182	2026	262,363
245,000	3.000	7,581	7,581	2027	260,162
250,000	3.125	3,906	3,907	2028	257,813
\$ 2,230,000		\$ 193,185	\$ 193,190		\$ 2,616,375

Bonds in the amount of \$3,485,000 were issued for the purpose of refinancing the 2002 and 2002E bonds.

KINGSTON COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT - 2018 BONDS
June 30, 2018

PRINCIPAL DUE MAY 1	RATE	INTEREST DUE		DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
		MAY 1	NOVEMBER 1	JUNE 30	AMOUNT
\$ 60,000	2.000	\$ 121,100	\$ 90,825	2019	\$ 271,925
75,000	2.000	90,225	90,225	2020	255,450
95,000	4.000	89,475	89,475	2021	273,950
95,000	4.000	87,575	87,575	2022	270,150
100,000	4.000	85,675	85,675	2023	271,350
100,000	3.000	83,675	83,675	2024	267,350
100,000	3.000	82,175	82,175	2025	264,350
105,000	3.000	80,675	80,675	2026	266,350
110,000	4.000	79,100	79,100	2027	268,200
120,000	4.000	76,900	76,900	2028	273,800
350,000	4.000	74,500	74,500	2029	499,000
365,000	4.000	67,500	67,500	2030	500,000
380,000	4.000	60,200	60,200	2031	500,400
395,000	4.000	52,600	52,600	2032	500,200
410,000	4.000	44,700	44,700	2033	499,400
430,000	4.000	36,500	36,500	2034	503,000
445,000	4.000	27,900	27,900	2035	500,800
465,000	4.000	19,000	19,000	2036	503,000
485,000	4.000	9,700	9,700	2037	504,400
<u>\$ 4,685,000</u>		<u>\$ 1,269,175</u>	<u>\$ 1,238,900</u>		<u>\$ 7,193,075</u>

2018 School Building and Site Bonds were issued in the amount of \$4,685,000 for the purpose of remodeling, equipping and re-equipping, and furnishing and refurbishing school facilities; acquireing, installing and equipping school facilities for instructional technology; demolishing the north wing fo Kingston Elementary school; and remodeling, developing, equipping and improving playgrounds, athletic structures, aathletic facilities and sites of the School District.



ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

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

To the Board of Education
Kingston Community Schools
Kingston, MI 48741

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kingston Community Schools as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 29, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Kingston 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 Kingston Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Kingston 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement on the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified deficiencies in internal control over financial reporting, described as 2018-001 and 2018-002 in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Kingston 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

KINGSTON COMMUNITY SCHOOLS' RESPONSE TO FINDINGS

Kingston Community Schools' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Kingston 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 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Anderson, Tuckey, Bernhardt & Doran, P.C.

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CARO, MICHIGAN**

October 29, 2018

KINGSTON COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2018

Finding considered a significant deficiency

Finding 2018-001

Criteria:

Management is responsible for timely and accurate reporting of financial data.

Condition:

The District completed bank reconciliations; however the bank reconciliations were not balanced with the general ledger for some accounts.

Context:

Internal controls are weakened due to bank reconciliations not agreeing to the general ledger for some accounts.

Cause:

The District changed software during the year. After the software conversion, the District did perform bank reconciliations, but they were not agreed to the general ledger for some accounts.

Effect:

The bank reconciliations were performed, but not agreed to the general ledger.

Recommendation:

We recommend the District match the bank reconciliations and the general ledger for all accounts on a timely basis.

Client Response:

We have reviewed our bank reconciliation procedures and will agree the bank reconciliations and the general ledger accounts in the future.

KINGSTON COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2018

Finding considered a significant deficiency

Finding 2018-002

Criteria:

SAS 115 requires auditors to evaluate entries posted subsequent to year-end and assess whether the entries are period-end closing, cut-off entries, or entries that should have been recorded throughout the year.

Condition:

Adjustments were made to the general ledger subsequent to year-end, which resulted in several changes to the final trial balances. Timely review and reconciliation of accounts was not consistently performed during the year.

Context:

Adjustments that were identified during the audit, either by management or as a result of audit procedures, impacted expenditures, revenues, assets, and liabilities within the governmental funds. These adjustments were corrected by management and are reflected in the financial statements.

Cause:

The majority of adjustments and corrections proposed resulted from lack of timely review of account reconciliations.

Effect:

Audit adjustments were required to reconcile certain accounts.

Recommendation:

General ledger accounts should be reconciled on a regular basis in order to present accurate financial statements to management and the Board of Education.

Client Response:

We will review our year-end entry procedures and work to make sure accounts are reconciled throughout the year.



ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

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To the Members of the Board
Kingston Community Schools

We have audited the financial statements of **Kingston Community Schools** for the year ended **June 30, 2018** and have issued our report thereon dated October 29, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of **Kingston Community Schools**. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we performed tests of **Kingston Community Schools'** compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by **Kingston Community Schools** are described in Note 1 to the financial statements. During 2018 the District implemented Governmental Accounting Standard No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The application of existing policies was not changed during 2018. We noted no transactions entered into by **Kingston Community Schools** during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 financial statements were:

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

Estimates have been used in calculating the liability for employee compensated absences.

We evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

We did not identify any sensitive disclosures.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We have proposed adjustments that we consider to be significant and have communicated this to management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 29, 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 **Kingston 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 **Kingston 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 required supplementary information (RSI) which are required supplementary information and supplement 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, other knowledge we obtained during the audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

We were not engaged to report on the statistical information, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

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

Very truly yours,

Anderson, Tuckey, Bernhardt & Doran, P.C.

Anderson, Tuckey, Bernhardt, & Doran, P.C.
Certified Public Accountants
Caro, Michigan

October 29, 2018



ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants

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Board of Education
Kingston Community Schools
Kingston, Michigan

In planning and performing our audit of the financial statements of Kingston Community Schools as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered Kingston Community Schools' internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 29, 2018, on the financial statements of Kingston Community Schools. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments and recommendations are summarized as follows:

Budget variance

During the current year, we noted that actual expenditures exceeded the budget by approximately \$75,500 in the general fund. The budget was amended during the year, but final actual expenditures exceeded the final budgeted amount. We recommend the district review its accounting procedures to ensure expenses do not exceed the budget during the year.

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

Very truly yours,

Anderson, Tuckey, Bernhardt & Doran, P.C.

Anderson, Tuckey, Bernhardt, & Doran, P.C.
Certified Public Accountants
Caro, Michigan

October 29, 2018