



WEINLANDER FITZHUGH

REESE PUBLIC SCHOOLS
REESE, MICHIGAN

FINANCIAL STATEMENTS
JUNE 30, 2018

TABLE OF
CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 11
Basic Financial Statements	
District-wide Financial Statements	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements	
Governmental Funds:	
Balance Sheet	14
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balance	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	17
Fiduciary Funds:	
Statement of Fiduciary Net Position	18
Statement of Changes in Fiduciary Net Position	18
Notes to Financial Statements	19 - 46
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	47
Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability	48
Schedule of the Reporting Unit's Pension Contributions	49
Schedule of the Reporting Unit's Proportionate Share of the Net OPEB Liability	50
Schedule of the Reporting Unit's OPEB Contributions	51
Notes to Required Supplementary Information	

TABLE OF
CONTENTS

	<u>Page</u>
Other Supplemental Information	
Balance Sheet - Nonmajor Governmental Funds	53
Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds	54
Schedule of Bonded Indebtedness	55
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	56 - 57
Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance Required By The Uniform Guidance	58 - 59
Schedule of Findings and Questioned Costs	60
Summary of Prior Year Findings	61
Schedule of Expenditures of Federal Awards	62 - 63
Notes to the Schedule of Expenditures of Federal Awards	64



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

September 14, 2018

Board of Education
Reese Public Schools
Reese, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

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Board of Education
Reese Public Schools
September 14, 2018

Emphasis of Matter

As discussed in Note 15 to the financial statements, in 2018, the School District adopted new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

The nonmajor fund financial statements, schedule of bonded indebtedness and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the nonmajor fund financial statements, schedule of bonded indebtedness and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.



WEINLANDER FITZHUGH

Board of Education
Reese Public Schools
September 14, 2018

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2018, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Weinlander Fitzhugh

REESE PUBLIC SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

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

Financial Highlights

The School District's net position increased by \$574,084 or 6%. Program revenues were \$2,586,878 or 26% of total revenues, and general revenues were \$7,200,086 or 74%.

The General Fund reported a positive fund balance of \$1,224,593. The Capital Projects Fund reported a positive fund balance of \$1,126,729. The 2015 Debt Retirement Fund reported a positive fund balance of \$799,670.

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

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

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, Capital Projects Fund, and 2015 Debt Retirement Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students. The following summarizes the presentation included in this annual financial report.

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

Basic Financial Statements

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

Budgetary Information for the General Fund (Required Supplemental Information)

Pension Schedules (Required Supplemental Information)

OPEB Schedules (Required Supplemental Information)

Other Supplemental Information

REESE PUBLIC SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Reporting the District as a Whole

The Statement of Net Position and Statement of Activities

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Fiduciary Funds

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

REESE PUBLIC SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

District-wide Financial Analysis

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

Exhibit A	Governmental Activities	
	2018	Nonrestated 2017
Assets		
Current and other assets	\$ 4,636,094	\$ 4,171,919
Capital assets - net of accumulated depreciation	7,213,337	7,332,486
Total assets	11,849,431	11,504,405
Deferred Outflows of Resources		
Related to refunding	107,233	116,425
Related to pensions and OPEB	2,670,785	1,479,303
Total deferred outflows of resources	2,778,018	1,595,728
Liabilities		
Current liabilities	1,755,551	1,740,649
Long-term liabilities	20,408,516	16,392,639
Total liabilities	22,164,067	18,133,288
Deferred Inflows of Resources		
Related to pensions and OPEB	1,181,610	364,042
Total deferred inflows of resources	1,181,610	364,042
Net Position		
Net investment in capital assets	2,263,337	2,067,486
Restricted	1,985,950	1,545,839
Unrestricted	(12,967,515)	(9,010,522)
Total net position	\$ (8,718,228)	\$ (5,397,197)

The analysis above focuses on net position (see Exhibit A). The School District's net position was \$(8,718,228) at June 30, 2018. Investment in property and equipment, net of related debt totaling \$2,263,337, compares the original costs less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt requirements and legislation that limit the School District's ability to use the net position for day-to-day operations.

The \$(12,967,515) in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

REESE PUBLIC SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

The School District implemented GASB Statement No. 68 in 2015. The effect of this Statement required the School District to report in the summary of net position, a liability of \$11,287,569 for 2018 and \$10,751,052 for 2017.

The School District implemented GASB Statement No. 75 in 2018. The effect of this Statement required the School District to report in the summary of net position, a liability of \$3,845,669 for 2018 and \$0 for 2017. The 2018 summary of the School District's net position was not restated to reflect this implementation.

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

Exhibit B	Governmental Activities	
	2018	Nonrestated 2017
Revenues		
Program revenue:		
Charges for services	\$ 316,306	\$ 315,034
Grants and categoricals	2,270,572	2,119,530
General revenue:		
Property taxes	1,918,387	1,893,251
State aid	5,220,922	5,188,639
Loss on disposal of capital assets	0	(3,631)
Other	60,777	93,676
Total revenues	9,786,964	9,606,499
Function/Program Expenses		
Instruction	5,248,527	5,218,231
Support services	2,767,750	2,640,040
Community services	34,600	36,321
Food services	419,850	433,245
Athletics	214,693	202,400
Capital outlay	34,306	266,959
Interest on long-term debt	166,637	177,811
Depreciation (unallocated)	326,517	317,822
Total expenses	9,212,880	9,292,829
Change in Net Position	\$ 574,084	\$ 313,670

The School District implemented GASB Statement No. 75 for 2018. The effect of this Statement required the School District to report in the summary of the change in net position, an expense of \$303,946. The 2017 summary of the School District's change in net position was not restated to reflect this implementation.

REESE PUBLIC SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

As reported in the statement of activities, the cost of all of our governmental activities this year was \$9,212,880. Certain activities were partially funded from those who benefited from the programs, \$316,306, or by the other governments and organizations that subsidized certain programs with grants and categoricals of \$2,270,572. We paid for the remaining "public benefit" portion of our governmental activities with \$1,918,387 in taxes, \$5,220,922 in State aid and with our other revenues, such as interest and entitlements.

The School District had an increase in net position of \$574,084. The major reason was due to the increase in fund balance in all accounts and the repayment of the bonds. The increase in net position differs from the change in fund balance and a reconciliation appears in the financial statements.

The School District's Funds

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

The School District's governmental funds reported a combined fund balance of \$3,243,544, which is above last year's total of \$2,781,268. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2018 and 2017.

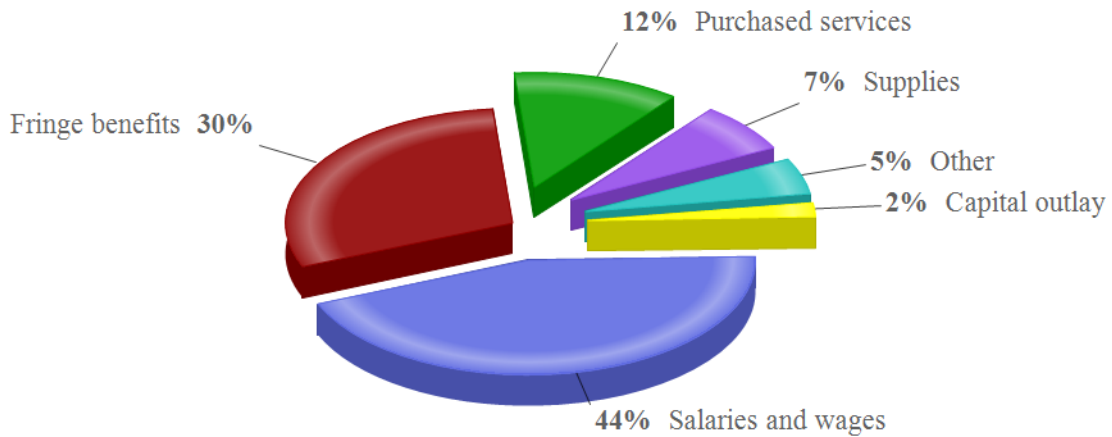
	Fund Balance <u>6/30/2018</u>	Fund Balance <u>6/30/2017</u>	Increase (Decrease)
General	\$ 1,224,593	\$ 1,200,431	\$ 24,162
Capital Projects	1,126,729	821,852	304,877
Debt Retirement	799,670	691,223	108,447
Special Revenue	92,552	67,762	24,790
	<u>\$ 3,243,544</u>	<u>\$ 2,781,268</u>	<u>\$ 462,276</u>

- Our General Fund increase is mainly attributable to staffing changes mid year.
- Our Capital Projects Fund increased due to a decrease in sinking fund projects this year.
- Our Special Revenue Fund increased due to an increase in lunches and there were no major repairs.
- Our Debt Service Funds increased due to collecting debt funds based on a large amount of tax tribunals currently in court.

REESE PUBLIC SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

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

Expenditures



<u>Expenditures by Object</u>	<u>2018</u>	<u>2017</u>
Salaries and wages	\$ 3,697,485	\$ 3,814,574
Fringe benefits	2,457,701	2,392,056
Purchased services	993,522	975,814
Supplies	564,710	424,736
Capital outlay	199,084	161,378
Other	402,625	395,548
Total	<u>\$ 8,315,127</u>	<u>\$ 8,164,106</u>

Expenditures have increased by \$151,021 mainly due to contractual obligations with pay increases for staff which effects both salaries and benefits. We purchased a new ELA program for grades K-5. We also purchased two buses off of lease.

REESE PUBLIC SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

General Fund Budgetary Highlights

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

- Budgeted revenues increased due to student increase.
- Final budgeted expenditures for 2018 increased due to an increase of capital items purchased.
- Actual revenues were lower than budgeted amounts by \$14,975 due to grants being carried forward.
- Actual expenditures were lower than budgeted amounts by \$74,577 due to lower than expected repairs and maintenance. No significant individual variance noted.

Capital Assets

At June 30, 2018, the School District had \$7,213,337 invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net decrease (including additions and disposals) of 2% from last year.

	2018	2017
Land	\$ 519,823	\$ 519,823
Buildings and improvements	11,760,526	11,722,232
Buses and other vehicles	666,536	667,761
Furniture and equipment	197,762	224,317
Total capital assets	13,144,647	13,134,133
Less accumulated depreciation	5,931,310	5,801,647
Net capital assets	\$ 7,213,337	\$ 7,332,486

This year's additions of \$207,368 were for a scoreboard, convection oven, high jump mat, golf cart, truck and two buses. No debt was issued for these additions.

We anticipate capital additions will continue with the renovations to the high school. Also, we will continue to upgrade parking lots, boilers, roofs and building systems. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$4,950,000 in bonds outstanding versus \$5,265,000 in the previous year - a decrease of 6%.

	2018	2017
2015 Improvement Bonds	\$ 4,950,000	\$ 5,265,000

REESE PUBLIC SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Factors Expected to have an Effect on Future Operations

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

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

Requests for Information

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

Office of the Superintendent
Reese Public Schools
1696 VanBuren
Reese, MI 48757

REESE PUBLIC SCHOOLS
Statement of Net Position
June 30, 2018

	Governmental Activities
<u>Assets</u>	
Cash and investments	\$ 2,921,035
Receivables - net:	
Due from other governmental units	1,677,205
Accounts receivable	22,164
Deposits	15,690
Capital assets less accumulated depreciation \$5,931,310	7,213,337
Total assets	11,849,431
<u>Deferred Outflows of Resources</u>	
Related to pensions	2,448,612
Related to OPEB	222,173
Loss on bond refunding	107,233
Total deferred outflows of resources	2,778,018
<u>Liabilities</u>	
Accounts payable	10,187
Unearned revenue	21,974
Accrued interest payable	33,001
Accrued payroll and other liabilities	700,326
State aid anticipation note payable	660,063
Long-term liabilities:	
Due within one year	330,000
Due in more than one year	5,275,278
Net pension liability	11,287,569
Net OPEB Liability	3,845,669
Total liabilities	22,164,067
<u>Deferred Inflows of Resources</u>	
Related to pensions	1,051,598
Related to OPEB	130,012
Total deferred inflows of resources	1,181,610
<u>Net Position</u>	
Net investment in capital assets	2,263,337
Restricted for debt service	766,669
Restricted for capital projects	1,126,729
Restricted for food service	92,552
Unrestricted	(12,967,515)
Total net position	\$ (8,718,228)

See accompanying notes to financial statements.

REESE PUBLIC SCHOOLS
Statement of Activities
For the Year Ended June 30, 2018

	Program Revenues			Governmental Activities
Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Position	
<u>Functions/Programs</u>				
Primary government -				
Governmental activities:				
Instruction	\$ 5,248,527	\$ 141,569	\$ 1,870,602	\$ (3,236,356)
Support services	2,767,750	0	44,845	(2,722,905)
Community services	34,600	21,472	0	(13,128)
Food services	419,850	91,699	355,125	26,974
Athletics	214,693	61,566	0	(153,127)
Capital outlay	34,306	0	0	(34,306)
Interest on long-term debt	166,637	0	0	(166,637)
Depreciation (unallocated)	326,517	0	0	(326,517)
	\$ 9,212,880	\$ 316,306	\$ 2,270,572	(6,626,002)
Total governmental activities				
General revenues:				
Taxes:				
Property taxes, levied for general purposes				942,110
Property taxes, levied for capital projects				366,100
Property taxes, levied for debt services				610,177
State aid				5,220,922
Interest and investment earnings				3,266
Other				57,511
				7,200,086
Total general revenues				
Change in net position				
Net position - beginning of year, restated				
(9,292,312)				
Net position - end of year				
\$ (8,718,228)				

See accompanying notes to financial statements.

REESE PUBLIC SCHOOLS
Governmental Funds
Balance Sheet
June 30, 2018

	General	Capital Projects	2015 Debt Retirement	Other Nonmajor Governmental Funds	Total
<u>Assets</u>					
Cash and investments	\$ 896,001	\$ 1,126,729	\$ 799,670	\$ 98,635	\$2,921,035
Receivables - net:					
Due from other funds	0	0	0	3,980	3,980
Due from other governmental units	1,672,556	0	0	4,649	1,677,205
Accounts receivable	22,164	0	0	0	22,164
Deposits	15,690	0	0	0	15,690
 Total assets	<u>\$ 2,606,411</u>	<u>\$ 1,126,729</u>	<u>\$ 799,670</u>	<u>\$ 107,264</u>	<u>\$4,640,074</u>
<u>Liabilities and Fund Balance</u>					
<u>Liabilities</u>					
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 10,187	\$ 10,187
Due to other funds	3,980	0	0	0	3,980
Unearned revenue	17,449	0	0	4,525	21,974
Accrued payroll and other liabilities	700,326	0	0	0	700,326
State aid anticipation note payable	660,063	0	0	0	660,063
 Total liabilities	<u>1,381,818</u>	<u>0</u>	<u>0</u>	<u>14,712</u>	<u>1,396,530</u>
<u>Fund Balance</u>					
Restricted for debt service	0	0	799,670	0	799,670
Restricted for capital projects	0	1,126,729	0	0	1,126,729
Restricted for food service	0	0	0	92,552	92,552
Unassigned	1,224,593	0	0	0	1,224,593
 Total fund balance	<u>1,224,593</u>	<u>1,126,729</u>	<u>799,670</u>	<u>92,552</u>	<u>3,243,544</u>
 Total liabilities and fund balance	<u>\$ 2,606,411</u>	<u>\$ 1,126,729</u>	<u>\$ 799,670</u>	<u>\$ 107,264</u>	<u>\$4,640,074</u>

See accompanying notes to financial statements.

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

Total fund balance - governmental funds	\$ 3,243,544
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and are not reported in the funds</p>	
Cost of the capital assets	13,144,647
Accumulated depreciation	(5,931,310)
<p>Deferred outflows used in governmental activities are not financial resources and therefore are not reported in governmental funds:</p>	
Related to pensions	2,448,612
Related to OPEB	222,173
Loss on bond refunding	107,233
<p>Long-term liabilities are not due and payable in the current period and are not reported in the funds:</p>	
Bonds payable	(4,950,000)
Compensated absences	(150,000)
Unamortized debt premium	(505,278)
Net pension liability	(11,287,569)
Net OPEB liability	(3,845,669)
Accrued interest payable is included as a liability in governmental activities	(33,001)
<p>Deferred inflows used in governmental activities are not recognized as current resources and therefore are not reported in governmental funds:</p>	
Related to pensions	(1,051,598)
Related to OPEB	(130,012)
Total net position - governmental activities	\$ (8,718,228)

See accompanying notes to financial statements.

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

	General	Capital Projects	2015 Debt Retirement	Other Nonmajor Governmental Funds	Total
<u>Revenues</u>					
Local sources					
Property taxes	\$ 942,110	\$ 366,100	\$ 610,177	\$ 0	\$ 1,918,387
Other local sources	179,505	0	0	91,699	271,204
State sources	6,473,707	0	25,214	16,726	6,515,647
Federal sources	616,006	0	0	341,879	957,885
Transportation fees	9,705	0	0	0	9,705
Interdistrict and other sources	118,256	0	0	0	118,256
Total revenues	<u>8,339,289</u>	<u>366,100</u>	<u>635,391</u>	<u>450,304</u>	<u>9,791,084</u>
<u>Expenditures</u>					
Current:					
Instruction	5,150,325	0	0	0	5,150,325
Support services	2,904,134	0	0	0	2,904,134
Community services	34,600	0	0	0	34,600
Athletics	226,068	0	0	0	226,068
Food services	0	0	0	425,514	425,514
Capital outlay	0	61,223	0	0	61,223
Principal	0	0	315,000	0	315,000
Interest and other	0	0	211,944	0	211,944
Total expenditures	<u>8,315,127</u>	<u>61,223</u>	<u>526,944</u>	<u>425,514</u>	<u>9,328,808</u>
Net change in fund balance	24,162	304,877	108,447	24,790	462,276
Fund balance - beginning of year	1,200,431	821,852	691,223	67,762	2,781,268
Fund balance - end of year	<u>\$1,224,593</u>	<u>\$1,126,729</u>	<u>\$ 799,670</u>	<u>\$ 92,552</u>	<u>\$ 3,243,544</u>

See accompanying notes to financial statements.

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

Net change in fund balance - total governmental funds	\$ 462,276
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p style="padding-left: 20px;">Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation</p>	
Depreciation expense	(326,517)
Capital outlay	207,368
Repayment of bonds	315,000
<p>The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of 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, where as these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items as follows:</p>	
Amortization of bond premium	43,309
Amortization of loss on refunding	(9,192)
Increases in compensated absences are reported as an increase in expenditures when financial resources are used in the governmental fund in accordance with GASB Interpretation No. 6	(7,000)
Decreases in accrued interest are reported as a reduction in expenditures on the Statement of Activities	1,996
<p>Some revenue and expenses reported in the statement of activities do not recognize as or require the use of current resources and, therefore, are not reported in the governmental funds:</p>	
Pension related items	(254,763)
OPEB related items	141,607
Change in net position of governmental activities	<u>\$ 574,084</u>

See accompanying notes to financial statements.

REESE PUBLIC SCHOOLS
 Fiduciary Funds
 Statement of Fiduciary Net Position
June 30, 2018

	<u>Agency Funds</u>	<u>Private Purpose Trusts</u>
<u>Assets</u>		
Cash and investments	\$ <u>181,108</u>	\$ <u>107,034</u>
<u>Liabilities</u>		
Due to student groups	\$ <u>181,108</u>	
<u>Net Position</u>		
Held in trust for scholarships		\$ <u>107,034</u>

REESE PUBLIC SCHOOLS
 Fiduciary Funds
 Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2018

		<u>Private Purpose Trusts</u>
<u>Additions</u>		
Contributions and investment income		\$ 5,253
<u>Deductions</u>		
Scholarships		<u>6,350</u>
Change in net position		(1,097)
Net position - beginning of year		<u>108,131</u>
Net position - end of year		<u>\$ 107,034</u>

See accompanying notes to financial statements.

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

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

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

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

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

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

The School District reports the following major governmental funds:

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

Capital Projects Fund - The Capital Projects Fund is used to account for the recording of transactions relative to the improvement of the facilities of the School District.

2015 Debt Retirement Fund - The Debt Retirement Fund is used to account for the recording of transactions relative to the debt retirement of the School District.

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Position or Equity

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

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

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid items in both district-wide and fund financial statements.

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

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

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

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

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

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Deferred Outflows and Inflows of Resources

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

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows - In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue arises only under a modified accrual basis of accounting. Accordingly, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from receipts that are received after 60 days of year end. These amounts are deferred and recognized as inflow of resources in the period that the amounts become available. For district-wide financial statements, the School District reports deferred inflows of resources related to pensions and other postemployment benefits. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension and other postemployment benefits expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. Deferred inflows of resources also includes revenue received relating to Section 147c state aid deferred to offset the deferred outflows related to Section 147c pension contributions subsequent to the measurement period.

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

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

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2017 - August 2018. The local revenue is recognized as outlined in Note 1. Amounts receivable from the State of Michigan at June 30, 2018 relating to state aid is \$1,106,091.

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

Events Occurring After Reporting Date

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

NOTE 2 - BUDGETS

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

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 2 - BUDGETS (CONTINUED)

Reese Public Schools follows these procedures in establishing the budgetary data reflected in the financial statements.

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

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

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

NOTE 3 - CASH AND INVESTMENTS

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

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and Investments	\$ 2,921,035	\$ 288,142	\$ 3,209,177

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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

Deposits (checking and savings accounts, certificates of deposit)	\$ 3,103,649
Investment in interlocal agreement investment pools (i.e. MILAF) with a weighted average maturity of 1 day	104,578
Petty cash and cash on hand	950
Total	\$ 3,209,177

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

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

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2018, \$3,359,381 of the School District's bank balance of \$3,963,960 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurement

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

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the School District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

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

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

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 4 - CAPITAL ASSETS

A summary of changes in governmental capital assets follows:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Disposals and</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2018</u>
Assets not being depreciated:				
Land	\$ 519,823	\$ 0	\$ 0	\$ 519,823
Capital assets being depreciated:				
Buildings and improvements	11,722,232	38,294	0	11,760,526
Buses and other vehicles	667,761	163,410	(164,635)	666,536
Furniture and equipment	224,317	5,664	(32,219)	197,762
Subtotal	<u>12,614,310</u>	<u>207,368</u>	<u>(196,854)</u>	<u>12,624,824</u>
Accumulated depreciation:				
Buildings and improvements	5,252,296	260,904	0	5,513,200
Buses and other vehicles	384,193	56,001	(164,635)	275,559
Furniture and equipment	165,158	9,612	(32,219)	142,551
Subtotal	<u>5,801,647</u>	<u>326,517</u>	<u>(196,854)</u>	<u>5,931,310</u>
Net capital assets being depreciated	<u>6,812,663</u>	<u>(119,149)</u>	<u>0</u>	<u>6,693,514</u>
Net capital assets	<u>\$ 7,332,486</u>	<u>\$ (119,149)</u>	<u>\$ 0</u>	<u>\$ 7,213,337</u>

Depreciation expense for fiscal year ended June 30, 2018 was \$326,517. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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

	<u>Payables</u>
	<u>General</u>
Receivables Food Service	\$ 3,980
	<u>\$ 3,980</u>

These interfund receivable and payable balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur; (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

There were no interfund transfers during the year.

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 6 - RECEIVABLES

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

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

State aid and grants	\$ 1,106,091
Federal grants	156,803
ISD	410,736
Other local districts	<u>3,575</u>
	<u>\$ 1,677,205</u>

NOTE 7 - UNEARNED REVENUE

Governmental funds report unearned revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also reflect unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, grant and categorical aid payments received prior to meeting all eligibility requirements amounted to \$21,974.

NOTE 8 - SHORT-TERM DEBT ACTIVITY

The School District issues state aid anticipation notes in advance of State of Michigan state aid payments, depositing the proceeds in its General Fund. These notes are necessary because the School District's cash flow obligation to operating expenses precede the collection of state aid.

Beginning Balance	Issued	Redeemed	Ending Balance
<u>\$ 660,043</u>	<u>\$ 900,000</u>	<u>\$ 899,980</u>	<u>\$ 660,063</u>

NOTE 9 - LONG-TERM DEBT

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

	Balance June 30, 2017	Additions	Retirements and Payments	Balance June 30, 2018	Amount Due Within One Year
Bonds	\$ 5,265,000	\$ 0	\$ 315,000	\$ 4,950,000	\$ 330,000
Compensated absences	<u>143,000</u>	<u>7,000</u>	<u>0</u>	<u>150,000</u>	<u>0</u>
	<u>\$ 5,408,000</u>	<u>\$ 7,000</u>	<u>\$ 315,000</u>	5,100,000	330,000
Bond premium				<u>505,278</u>	<u>0</u>
				<u>\$ 5,605,278</u>	<u>\$ 330,000</u>

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 9 - LONG-TERM DEBT (CONTINUED)

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

\$5,860,000 School Building & Site bonds due in annual
installments of \$290,000 to \$510,000 through May 1, 2030;
interest at 4.00%

\$ 4,950,000

Compensated absences include unused sick pay and vacation pay. Unused sick pay is calculated using the termination payoff rate of \$45 for eligible employees times the number of unused days (maximum 160 days). Vacation payouts are computed using an average daily rate using 220 days. At June 30, 2018, the amount of \$150,000 has been recorded in the district-wide financial statements.

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

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 330,000	\$ 198,000	\$ 528,000
2020	340,000	184,800	524,800
2021	355,000	171,200	526,200
2022	370,000	157,000	527,000
2023	385,000	142,200	527,200
2024 - 2028	2,170,000	467,400	2,637,400
2029 - 2030	1,000,000	60,400	1,060,400
	<u>\$ 4,950,000</u>	<u>\$ 1,381,000</u>	<u>\$ 6,331,000</u>

NOTE 10 - RISK MANAGEMENT

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

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

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Plan Description

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

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

Benefits Provided - Overall

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

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

Benefits Provided - Pension

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

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

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (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 members.

Pension Reform 2012

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

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

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

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

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

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

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

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

Pension Reform of 2017

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

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

Benefits Provided – Other postemployment benefit (OPEB)

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

Retiree Healthcare Reform of 2012

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

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

Regular Retirement (no reduction factor for age)

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

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

Member Contributions

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

Employer Contributions

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

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

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

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

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

The School District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately \$1,179,000, with \$1,085,000 specifically for the Defined Benefit Plan.

The School District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total. OPEB benefits were approximately \$304,000, with \$297,000 specifically for the Defined Benefit Plan.

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

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

Pension Liabilities

At June 30, 2018, the School District reported a liability of \$11,287,569 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the School District's proportion was 0.04356 and 0.04309 percent.

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

MPSERS (Plan) Non-University Employers:	September 30, 2017	September 30, 2016
Total Pension Liability	\$ 73,501,296,000	\$ 67,355,988,000
Plan Fiduciary Net Position	\$ 47,011,783,000	\$ 42,382,361,000
Net Pension Liability	\$ 26,489,513,000	\$ 24,973,627,000
Proportionate share	0.04356 %	0.04309 %
Net Pension liability for the School District	\$ 11,287,569	\$ 10,751,052

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

For the year ended June 30, 2018, the School District recognized pension expense of approximately \$935,000.

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Differences between expected and actual experience	\$ 98,097	\$ (55,386)
Net difference between projected and actual earnings on pension plan investments	0	(539,620)
Changes in assumptions	1,236,643	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	174,808	(6,857)
Unearned revenue related to pension portion of section 147 c	0	(449,735)
Reporting Unit contributions subsequent to the measurement date	<u>939,064</u>	<u>0</u>
Total	<u>\$ 2,448,612</u>	<u>\$ (1,051,598)</u>

\$939,064, reported as deferred outflows of resources related to pensions resulting from School District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

Year Ended June 30	<u>Amount</u>
2019	\$ 266,980
2020	448,554
2021	203,188
2022	(11,037)
	<u>\$ 907,685</u>

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

OPEB Liabilities

At June 30, 2018, the School District reported a liability of \$3,845,669 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The School District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the School District's proportion was 0.04343 and 0.04343 percent.

MPSERS (Plan) Non-University Employers:	September 30, 2017
Total OPEB Liability	\$ 14,175,547,000
Plan Fiduciary Net Position	\$ 5,177,775,000
Net OPEB Liability	\$ 8,997,772,000
Proportionate share	0.04343 %
Net OPEB liability for the School District	\$ 3,845,669

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

For the year ended June 30, 2018, the School District recognized OPEB expense of approximately \$143,000.

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Difference between expected and actual experience	\$ 0	\$ (40,945)
Net difference between projected and actual plan investment	0	(89,067)
Changes of assumption	0	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	404	0
School District's contributions subsequent to the measurement date	<u>221,769</u>	<u>0</u>
Total	<u>\$ 222,173</u>	<u>\$ (130,012)</u>

\$221,769, reported as deferred outflows of resources related to OPEB resulting from School District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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

Year Ended September 30	Amount
2019	\$ (31,328)
2020	(31,328)
2021	(31,328)
2022	(31,328)
2023	(4,296)
	<u>\$ (129,608)</u>

Actuarial Assumptions

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

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

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

Inflation - 3.0%

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

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

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

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

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

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

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

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

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

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

Investment Category	Target Allocation*	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.6%
Alternate Investment Pools	18.0%	8.7%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	(0.1)%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.0%
Short Term Investment Pools	2.0%	(0.9)%
Total	100.0%	

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

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

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

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

	Pension		
	1% Decrease (6.5-6.0%)	Discount Rate (7.5-7.0%)	1% Increase (8.5-8.0%)
School District's proportionate share of the net pension liability	<u>\$14,703,948</u>	<u>\$11,287,569</u>	<u>\$8,411,195</u>

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

	Other postemployment benefit		
	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
School District's proportionate share of the net other postemployment benefit liability	<u>\$4,504,390</u>	<u>\$3,845,669</u>	<u>\$3,286,621</u>

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

	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%)
School District's proportionate share of the net OPEB liability	<u>\$3,256,765</u>	<u>\$3,845,669</u>	<u>\$4,514,329</u>

Pension and OPEB Plan Fiduciary Net Position

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

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

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

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 12 - GRANTS

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

NOTE 13 - ECONOMIC DEPENDENCY

The School District received approximately 78% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

NOTE 14 - SINKING FUND COMPLIANCE

The School District passed a sinking fund levy at 1.5 mills. The activity related to the sinking fund is recorded in the Capital Projects Fund. The assets, liabilities, revenues and expenditures are included in the School District's basic financial statements for the year ended June 30, 2018.

For this fund, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

NOTE 15 - NEW ACCOUNTING STANDARDS

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

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

Summary:

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

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 15 - NEW ACCOUNTING STANDARDS (CONTINUED)

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

	Governmental activities
Net position (deficit) as previously stated, July 1, 2017	\$ (5,397,197)
Adoption of GASB Statement 75:	
Net other postemployment benefit liability	(4,056,329)
Deferred outflows	284,557
Deferred inflows	(123,343)
	(3,895,115)
 Net position as restated, July 1, 2017	 \$ (9,292,312)

NOTE 16 - TAX ABATEMENTS

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

The School District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions, granted by cities, villages and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities.

The property taxes abated for all funds by Blumfield Township, Denmark Township and Merritt Township under this program were \$29,321.

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

REESE PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 17 - UPCOMING ACCOUNTING PRONOUNCEMENT

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

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

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

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Local sources				
Property taxes	\$ 1,129,150	\$ 1,122,635	\$ 942,110	\$ (180,525)
Other local sources	0	0	179,505	179,505
State sources	6,223,453	6,473,959	6,473,707	(252)
Federal sources	576,581	632,445	616,006	(16,439)
Transportation fees	0	10,200	9,705	(495)
Interdistrict and other sources	80,000	115,025	118,256	3,231
Total revenues	<u>8,009,184</u>	<u>8,354,264</u>	<u>8,339,289</u>	<u>(14,975)</u>
<u>Expenditures</u>				
Instruction:				
Basic programs	4,297,190	4,265,589	4,245,096	20,493
Added needs	950,683	918,425	905,229	13,196
Support services:				
Pupil	283,606	281,130	279,142	1,988
Instructional staff	149,642	172,365	166,701	5,664
General administrative	217,060	229,574	223,313	6,261
School administrative	607,508	608,375	602,203	6,172
Business services	226,224	242,467	235,593	6,874
Operations and maintenance	714,581	785,103	787,438	(2,335)
Transportation	329,603	438,867	432,031	6,836
Information services	167,218	182,281	177,713	4,568
Community services	35,956	39,453	34,600	4,853
Athletics	211,820	226,075	226,068	7
Total expenditures	<u>8,191,091</u>	<u>8,389,704</u>	<u>8,315,127</u>	<u>74,577</u>
Net change in fund balance	(181,907)	(35,440)	24,162	59,602
Fund balance - beginning of year	<u>1,200,431</u>	<u>1,200,431</u>	<u>1,200,431</u>	<u>0</u>
Fund balance - end of year	<u>\$ 1,018,524</u>	<u>\$ 1,164,991</u>	<u>\$ 1,224,593</u>	<u>\$ 59,602</u>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.04356 %	0.04309 %	0.04282 %	0.04233 %
Reporting unit's proportionate share of net pension liability	\$11,287,569	\$10,751,052	\$10,457,744	\$ 9,323,429
Reporting unit's covered-employee payroll*	\$ 3,646,940	\$ 3,628,463	\$ 3,535,782	\$ 3,560,714
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	32.30935 %	33.74984 %	33.81018 %	38.19103 %
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	36.39000 %	63.27000 %	62.92000 %	66.15000 %

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

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,084,691	\$ 1,059,788	\$ 1,009,708	\$ 778,962
Contributions in relation to statutorily required contributions*	<u>1,084,691</u>	<u>1,059,788</u>	<u>1,009,708</u>	<u>778,962</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Reporting unit's covered-employee payroll**	\$ 3,671,010	\$ 3,782,689	\$ 3,582,753	\$ 3,554,972
Contributions as a percentage of covered-employee payroll	29.55 %	28.02 %	28.18 %	21.91 %

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

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

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

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

	<u>2017</u>
Reporting unit's proportion of net OPEB liability (%)	0.04343 %
Reporting unit's proportionate share of net OPEB liability	\$ 3,845,669
Reporting unit's covered-employee payroll*	\$ 3,646,940
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	94.83239 %
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)	64.21000 %

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

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

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

	<u>2018</u>
Statutorily required contributions	\$ 297,009
Contributions in relation to statutorily required contributions*	<u>297,009</u>
Contribution deficiency (excess)	<u>\$ 0</u>
Reporting unit's covered-employee payroll**	\$ 3,671,010
Contributions as a percentage of covered-employee payroll	8.09 %

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

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

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

REESE PUBLIC SCHOOLS
Notes to Required Supplementary Information
For the Year Ended June 30, 2018

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

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

REESE PUBLIC SCHOOLS
 Other Supplemental Information
 Balance Sheet
 Nonmajor Governmental Funds
June 30, 2018

	<u>Special Revenue Fund</u> <u>Food Service</u>
<u>Assets</u>	
Cash and investments	\$ 98,635
Receivables - net:	
Due from other funds	3,980
Due from other governmental units	<u>4,649</u>
Total assets	<u>\$ 107,264</u>
<u>Liabilities and Fund Balance</u>	
<u>Liabilities</u>	
Accounts payable	\$ 10,187
Unearned revenue	<u>4,525</u>
Total liabilities	<u>14,712</u>
<u>Fund Balance</u>	
Restricted for food service	<u>92,552</u>
Total fund balance	<u>\$ 107,264</u>

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

	<u>Special Revenue Fund Food Service</u>
<u>Revenues</u>	
Local sources	
Other local sources	\$ 91,699
State sources	16,726
Federal sources	<u>341,879</u>
Total revenues	450,304
 <u>Expenditures</u>	
Current:	
Food services	<u>425,514</u>
Net change in fund balance	24,790
Fund balance - beginning of year	<u>67,762</u>
Fund balance - end of year	<u><u>\$ 92,552</u></u>

REESE PUBLIC SCHOOLS
Other Supplemental Information
Schedule of Bonded Indebtedness - 2015 Bond Refunding
For the Year Ended June 30, 2018

PURPOSE

The 2005 bonds were refunded, the original bonds were issued for the purpose of erecting, furnishing and equipping additions to, and partially remodeling, refurbishing and re-equipping the Reese Elementary, Middle and High School buildings, acquiring and installing educational technology, and developing and improving the sites.

DATE OF ISSUE

March 19, 2015

INTEREST PAYABLE

May 1 and November 1 of each year

AMOUNT OF ISSUE

\$ 5,860,000

AMOUNT REDEEMED

During prior years	\$ 595,000	
During current year	<u>315,000</u>	<u>910,000</u>

BALANCE OUTSTANDING - June 30, 2018

\$ 4,950,000

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	4.00%	\$ 330,000	\$ 198,000	\$ 528,000
2020	4.00%	340,000	184,800	524,800
2021	4.00%	355,000	171,200	526,200
2022	4.00%	370,000	157,000	527,000
2023	4.00%	385,000	142,200	527,200
2024	4.00%	400,000	126,800	526,800
2025	4.00%	415,000	110,800	525,800
2026	4.00%	435,000	94,200	529,200
2027	4.00%	450,000	76,800	526,800
2028	4.00%	470,000	58,800	528,800
2029	4.00%	490,000	40,000	530,000
2030	4.00%	<u>510,000</u>	<u>20,400</u>	<u>530,400</u>
		<u>\$ 4,950,000</u>	<u>\$ 1,381,000</u>	<u>\$ 6,331,000</u>



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

September 14, 2018

Board of Education
Reese Public Schools
Reese, Michigan

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Reese Public Schools (School District), as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise Reese Public Schools' basic financial statements and have issued our report thereon dated September 14, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.



Board of Education
Reese Public Schools
September 14, 2018

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Reese Public 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*.

Purpose of this Report

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

Weinlander Fitzhugh



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

September 14, 2018

Board of Education
Reese Public Schools
Reese, Michigan

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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



Board of Education
Reese Public Schools
September 14, 2018

Report on Internal Control Over Compliance

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

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

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

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

Weinlander Fitzhugh

REESE PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

SECTION I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified opinion

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? YES NO

Federal Awards

Internal Control over major programs:

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

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

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

Identification of major programs:

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

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

Auditee qualified as low-risk auditee? YES NO

SECTION II - Financial Statement Findings

There are no matters reported.

SECTION III - Federal Award Findings and Questioned Costs

There are no matters reported.

REESE PUBLIC SCHOOLS
Summary Schedule of Prior Year Findings
For the Year Ended June 30, 2018

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

REESE PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue June 30, 2017	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Unearned) Revenue June 30, 2018
<u>U.S. Department of Education</u>								
Passed through Michigan Department of Education:								
ECIA Title I								
Educationally Deprived								
1715301617	84.010	\$ 139,933	\$ 135,257	\$ 135,257	\$ 0	\$ 135,257	\$ 0	\$ 0
1815301718		152,620	0	0	0	0	142,923	142,923
			<u>135,257</u>	<u>135,257</u>	<u>0</u>	<u>135,257</u>	<u>142,923</u>	<u>142,923</u>
ECIA Title I								
Migrant Education								
1718301617	84.011	104,595	10,812	10,812	0	104,595	93,783	0
1818301718		107,615	0	0	0	0	11,584	11,584
			<u>10,812</u>	<u>10,812</u>	<u>0</u>	<u>104,595</u>	<u>105,367</u>	<u>11,584</u>
Title II								
Improving Teacher Quality								
1705201617	84.367	42,873	41,675	41,675	0	41,675	0	0
1805201718		32,375	0	0	0	31,055	31,055	0
			<u>41,675</u>	<u>41,675</u>	<u>0</u>	<u>72,730</u>	<u>31,055</u>	<u>0</u>
Title IV								
Student Support and Academic Enrichment								
1807501718	84.424	10,000	0	0	0	10,000	10,000	0
Passed through Tuscola ISD								
IDEA Special Education								
1004551718	84.027A	312,872	0	0	0	312,872	312,872	0
Total U.S. Department of Education			<u>187,744</u>	<u>187,744</u>	<u>0</u>	<u>635,454</u>	<u>602,217</u>	<u>154,507</u>
<u>U.S. Department of Agriculture</u>								
Passed through Michigan Department of Education								
Child Nutrition Cluster								
School Breakfast Program	10.553							
1819701718		123,004	0	0	0	123,004	123,004	0

See accompanying notes to Schedule of Expenditures of Federal Awards

REESE PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue June 30, 2017	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Unearned) Revenue June 30, 2018
National School Lunch Program	10.555							
1819601718		\$ 180,170	\$ 0	\$ 0	\$ 0	\$ 180,170	\$ 180,170	\$ 0
Non-Cash Assistance (Commodities)								
Entitlement		25,353	0	0	0	25,353	25,353	0
National School Lunch Program Subtotal			<u>0</u>	<u>0</u>	<u>0</u>	<u>205,523</u>	<u>205,523</u>	<u>0</u>
Summer Food Service Program for Children	10.559							
Cash Assistance								
170900		11,021	1,447	1,447	0	11,021	9,574	0
171900		1,142	161	161	0	1,142	981	0
180900		2,066	0	0	0	0	2,066	2,066
181900		230	0	0	0	0	230	230
Summer Food Service Program subtotal			<u>1,608</u>	<u>1,608</u>	<u>0</u>	<u>12,163</u>	<u>12,851</u>	<u>2,296</u>
Total Child Nutrition Cluster			<u>1,608</u>	<u>1,608</u>	<u>0</u>	<u>340,690</u>	<u>341,378</u>	<u>2,296</u>
			<u>\$ 189,352</u>	<u>\$ 189,352</u>	<u>\$ 0</u>	<u>\$ 976,144</u>	<u>\$ 943,595</u>	<u>\$ 156,803</u>

See accompanying notes to Schedule of Expenditures of Federal Awards

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The School District does not have any subrecipients.

NOTE 2 - OTHER DISCLOSURES

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

NOTE 3 - RECONCILIATION OF REVENUE REPORTED IN THE FINANCIAL STATEMENTS

Total federal expenditures per Schedule of Expenditures of Federal Awards	\$ 943,595
Add:	
Federal Communications Commission E-rate funding	13,790
USDA Award	500
Revenues per financial statements - federal sources	<u>\$ 957,885</u>