

Crestwood School District

Year Ended
June 30, 2018

Financial
Statements and
Single Audit Act
Compliance

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CRESTWOOD SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

October 22, 2018

Board of Education
Crestwood School District
Dearborn Heights, 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 *Crestwood School District* (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Crestwood School District as of June 30, 2018, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB Statement No. 75

As described in Note 15, the District implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in the current year. Accordingly, beginning net position of governmental activities was restated. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Rehmann Lobson LLC

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MANAGEMENT'S DISCUSSION AND ANALYSIS

CRESTWOOD SCHOOL DISTRICT

Management's Discussion and Analysis

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

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* issued June 2000. Certain comparative information between the current year and the prior year is required and is presented in the management's discussion and analysis.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District, financially, as a whole. The government-wide financial statements provide information about the activities of the whole District, presenting both an aggregate view of the 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 District's operations in more detail than the government-wide financial statements by providing information about the District's most significant funds - the general fund and capital projects fund, with all other funds presented in one column as nonmajor governmental funds. Also included is a comparison of general fund operations compared to the original and final budgets. Fund financial statements are presented for the District's Employee Benefit Fund, which is an internal service fund. The remaining statement, the Statement of Fiduciary Assets and Liabilities, presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The section below shows how the various parts of the annual report are arranged and related to one another.

Organization of Crestwood School District's Annual Financial Report

Management's Discussion & Analysis (MD&A)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to the Financial Statements

Reporting the School District as a Whole - Government-wide Financial Statements

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

CRESTWOOD SCHOOL DISTRICT

Management's Discussion and Analysis

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

The Statement of Net Position and Statement of Activities report the governmental activities for the District, which encompass all of the District's services, including instruction, supporting services, community services, food service, child care, and athletics. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds - Fund Financial Statements

The District's fund financial statements provide detailed information about the most *significant funds* - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, the District establishes other funds to help it control and manage money for particular purposes (the child care fund is an example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the District use the following accounting approach:

Governmental funds - all of the District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the operations of the District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations.

Proprietary Funds - the District maintains one type of proprietary fund. The District uses an internal service fund to account for its self-insured health care and dental program activities. Because the other services provided are strictly governmental in nature, the activity from the internal service fund has been included within governmental activities in the government-wide financial statements. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.

The District as Trustee - Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for its student activity funds. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

CRESTWOOD SCHOOL DISTRICT

Management's Discussion and Analysis

The District as a Whole

Recall that the Statement of Net Position provides the perspective of the District as a whole. The table below provides a comparison of the District's net position from the fiscal year ending June 30, 2018 to the fiscal year ending June 30, 2017.

	Governmental Activities	
	2018	2017
Assets		
Current and other assets	\$ 42,688,304	\$ 48,629,952
Capital assets, net	19,764,200	10,749,059
Total assets	62,452,504	59,379,011
Deferred outflows of resources	19,274,899	10,915,657
Liabilities		
Other liabilities	92,833,862	64,979,985
Long-term debt	36,797,276	38,019,653
Total liabilities	129,631,138	102,999,638
Deferred inflows of resources	4,173,784	176,739
Net position		
Net investment in capital assets	7,476,746	6,116,069
Restricted	668,594	437,671
Unrestricted (deficit)	(60,222,859)	(39,435,449)
Total net position	<u>\$(52,077,519)</u>	<u>\$(32,881,709)</u>

The above analysis focuses on the net position. The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in fiscal year 2015 and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in the current year. In addition to expanded disclosure requirements, the District is required to report its proportionate share of the MPSERS net pension liability and net other postemployment benefit liability on the statement of net position. This change has resulted in a negative total net position of governmental activities of \$52,077,519. Of this amount, \$(60,222,859) is unrestricted net position (deficit) and \$668,594 represents resources that are subject to external restrictions on how they may be used. Net investment in capital assets totaling \$7,476,746 compares the original cost, net of accumulated depreciation, of the District's capital assets less any long-term debt used to finance the acquisition or construction of those assets, and the unspent bond proceeds in the capital projects fund. The District currently has \$36,797,276 in long-term debt, of which a majority was used to finance capital assets, however, at year end there was a significant portion of the prior year bond proceeds that remained unspent. The change in net position of the District's governmental activities is discussed below.

CRESTWOOD SCHOOL DISTRICT

Management's Discussion and Analysis

The results of this year's operations for the District as a whole are reported in the Statement of Activities (see below), which provides a comparison of the changes in net position from the fiscal year ending June 30, 2018 to the fiscal year ending June 30, 2017.

	Governmental Activities	
	2018	2017
Revenues		
Program revenues:		
Charges for services	\$ 2,502,218	\$ 2,526,324
Operating grants and contributions	6,711,907	6,069,949
General revenues:		
Property taxes	5,455,621	5,493,624
Unrestricted state aid	32,511,691	30,482,602
Grants and contributions not restricted to specific programs	1,433,293	1,504,128
Unrestricted investment earnings	259,415	192,812
Total revenues	<u>48,874,145</u>	<u>46,269,439</u>
Function/program expenses		
Instruction	30,471,374	28,453,521
Supporting services	11,608,000	11,140,153
Community services	116,012	110,974
Food service	1,591,231	1,760,795
Child care	199,564	205,118
Athletics	745,171	748,083
Payments to other districts	244,225	249,577
Interest on long-term debt	1,159,709	1,202,401
Unallocated depreciation	574,497	578,920
Total expenses	<u>46,709,783</u>	<u>44,449,542</u>
Change in net position	2,164,362	1,819,897
Net position, beginning of year	(32,881,709)	(34,701,606)
Restatement for implementation of GASB 75	<u>(21,360,172)</u>	<u>-</u>
Net position, end of year	<u><u>\$(52,077,519)</u></u>	<u><u>\$(32,881,709)</u></u>

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$46,709,783. Certain activities were partially funded from those who benefited from the programs (\$2,502,218) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$6,711,907). We paid for the remaining "public benefit" portion of our governmental activities with \$5,455,621 in taxes, \$32,511,691 in unrestricted state aid and \$1,692,708 in other revenues.

CRESTWOOD SCHOOL DISTRICT

Management's Discussion and Analysis

A \$2.03 million increase in unrestricted state aid was generated primarily from a \$111 increase in our foundation allowance generating \$454,000, 84 additional students generating \$654,000 and an additional \$693,000 from the state to help support the district's annual retirement contributions.

Expenses increased by approximately \$2.26 million from the previous fiscal year primarily due to negotiated contract increases in salary and related benefits. Expenses also increased to account for higher retirement contribution costs (offset by additional revenue as explained above).

The District's Funds

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

As the District completed this year, the governmental funds reported a combined fund balance of \$33,921,486, which is a decrease of \$8,054,606 over last year. An increase of \$552,692 was reported in our general fund, our principal operating fund, which increased its fund balance to \$7,248,572. The general fund increase was primarily due to lower than anticipated health insurance costs. The food service and debt service fund balances increased by \$218,276 and \$55,345, respectively due to higher than anticipated revenues. The child care fund had no change in fund balance for the current year.

The capital projects fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The activities associated with the District's \$35 million bond issue, passed in May 2016 are recorded in this fund. At the end of the current fiscal year, the restricted portion of fund balance was \$24,383,065 and committed fund balance was \$1,439,128, while total fund balance was \$25,822,193. The capital projects fund balance decreased by \$8,880,919 in the current year as a result of the increase in bond project expenditures.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A statement showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the accompanying fund financial statements. Changes to the general fund original budget were as follows:

- Budgeted revenues increased by \$2.1 million in total. Included in the increase was \$1.5 million from state sources and \$580,000 from federal sources. The state increased their funding for retirement contributions by \$750,000, special education by \$114,000, and categorical revenue by \$210,000. The balance of the increase resulted from 12 additional students and unspent carryover revenue from the previous year. The federal revenue increase resulted from prior year unspent grant funds which were carried over into the current year.
- Budgeted expenditures increased by \$1.8 million primarily to account for additional state retirement costs (offset by additional revenue as explained above) and to budget for prior year unspent carry over funds. Staff salary and benefit expenses were also adjusted to accurately reflect changes that occurred throughout the year.

CRESTWOOD SCHOOL DISTRICT

Management's Discussion and Analysis

Overall, actual general fund expenditures were \$1.2 million less than final budget, which was a positive variance of 2.7%. Revenues were \$1.1 million under budget, which was a variance of 2.3%. Variances for both revenues and expenditures were primarily the result of actual grant activity being less than anticipated. Excess grant funds will be carried forward to the following fiscal year.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2018, the District had \$19,764,200 invested in a broad range of capital assets, including buildings, vehicles, furniture and equipment, and software, net of accumulated depreciation.

	Capital Assets	
	2018	2017
Construction in progress	\$ 10,880,984	\$ 1,740,650
Buildings and improvements	21,751,061	21,425,515
Buses and other vehicles	149,980	149,980
Furniture and equipment	1,254,898	1,254,898
Software	289,996	166,238
	<hr/>	<hr/>
Total capital assets	34,326,919	24,737,281
	<hr/>	<hr/>
Less: accumulated depreciation	14,562,719	13,988,222
	<hr/>	<hr/>
Net capital assets	<u>\$ 19,764,200</u>	<u>\$ 10,749,059</u>

Significant capital asset additions during the year are for construction projects related to the 2017 bond issuance.

We present more detailed information about our capital assets in the notes to the financial statements in Note 5.

Long-term Debt

At the end of the current fiscal year, the District had total long-term debt outstanding of \$36,797,276. The District's total debt decreased by \$1,222,377 during the current fiscal year. Decreases to long-term debt resulted primarily from the debt service payments made during the fiscal year.

Additional information on the District's long-term debt can be found in Note 8 of this report.

CRESTWOOD SCHOOL DISTRICT

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the District's 2019 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2019 fiscal year is 90 percent and 10 percent of the October 2018 and February 2018 student counts, respectively. The 2019 fiscal year budget was adopted in June 2018 based on an estimate of students that will be enrolled in September 2018. Approximately 90 percent of total General Fund revenue is generated from the foundation allowance. The 2019 fiscal year budget includes a foundation allowance of \$8,024 and a 4,259 blended student count. Under State law, the 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.

Since the 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 current appropriation.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional information, contact the Business Office, 1501 N. Beech Daly, Dearborn Heights, Michigan 48127.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CRESTWOOD SCHOOL DISTRICT

Statement of Net Position

June 30, 2018

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 34,317,596
Receivables	7,681,283
Prepays and inventories	689,425
Capital assets not being depreciated	10,880,984
Capital assets being depreciated, net	8,883,216
Total assets	62,452,504
Deferred outflows of resources	
Deferred pension amounts	17,855,812
Deferred other postemployment benefit amounts	1,419,087
Total deferred outflows of resources	19,274,899
Liabilities	
Accounts payable and accrued liabilities	6,512,288
Unearned revenue	4,980
Long-term debt:	
Due within one year	1,509,211
Due in more than one year	35,288,065
Net pension liability	64,395,108
Net other postemployment benefit liability	21,921,486
Total liabilities	129,631,138
Deferred inflows of resources	
Deferred pension amounts	3,432,678
Deferred other postemployment benefit amounts	741,106
Total deferred inflows of resources	4,173,784
Net position	
Net investment in capital assets	7,476,746
Restricted for food service	655,947
Restricted for debt service	12,647
Unrestricted (deficit)	(60,222,859)
Total net position	\$ (52,077,519)

The accompanying notes are an integral part of these financial statements.

CRESTWOOD SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2018

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 30,471,374	\$ 1,873,941	\$ 5,202,234	\$ (23,395,199)
Supporting services	11,608,000	89,537	125,693	(11,392,770)
Community services	116,012	132,471	-	16,459
Food service	1,591,231	327,383	1,383,980	120,132
Child care	199,564	-	-	(199,564)
Athletics	745,171	78,886	-	(666,285)
Payments to other districts	244,225	-	-	(244,225)
Interest on long-term debt	1,159,709	-	-	(1,159,709)
Unallocated depreciation	574,497	-	-	(574,497)
Total governmental activities	<u>\$ 46,709,783</u>	<u>\$ 2,502,218</u>	<u>\$ 6,711,907</u>	<u>(37,495,658)</u>
General revenues				
Property taxes				5,455,621
Unrestricted state aid				32,511,691
Grants and contributions not restricted to specific programs				1,433,293
Unrestricted investment earnings				<u>259,415</u>
Total general revenues				<u>39,660,020</u>
Change in net position				2,164,362
Net position, beginning of year, as restated				<u>(54,241,881)</u>
Net position, end of year				<u>\$ (52,077,519)</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

CRESTWOOD SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2018

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 6,018,293	\$ 27,813,228	\$ 486,075	\$ 34,317,596
Accounts receivable	-	-	3,000	3,000
Taxes receivable	440,848	-	82,093	522,941
Due from other governments	7,116,078	-	39,264	7,155,342
Due from other funds	-	-	230,836	230,836
Prepays	447,742	-	-	447,742
Inventories	-	-	23,089	23,089
Total assets	\$ 14,022,961	\$ 27,813,228	\$ 864,357	\$ 42,700,546
Liabilities				
Accounts payable	\$ 579,925	\$ 1,990,803	\$ 5,037	\$ 2,575,765
Accrued salaries and related liabilities	3,512,639	-	-	3,512,639
Due to other funds	2,548,642	232	5,419	2,554,293
Unearned revenue	1,800	-	3,180	4,980
Total liabilities	6,643,006	1,991,035	13,636	8,647,677
Deferred inflows of resources				
Unavailable revenue	131,383	-	-	131,383
Fund balances				
Nonspendable	447,742	-	23,089	470,831
Restricted	-	24,383,065	827,632	25,210,697
Committed	-	1,439,128	-	1,439,128
Unassigned	6,800,830	-	-	6,800,830
Total fund balances	7,248,572	25,822,193	850,721	33,921,486
Total liabilities, deferred inflows of resources and fund balances	\$ 14,022,961	\$ 27,813,228	\$ 864,357	\$ 42,700,546

The accompanying notes are an integral part of these financial statements.

CRESTWOOD SCHOOL DISTRICT

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2018

Fund balances - total governmental funds	\$ 33,921,486
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	10,880,984
Capital assets being depreciated, net	8,883,216
Long-term receivables are reported as an asset and revenue when earned on the statement of net position while the governmental funds report these balances as an asset and deferred inflows of resources until the availability criterion for revenue recognition is met.	
Unavailable receivables	131,383
An internal service fund is used by management to charge the costs of health, dental, vision insurance and compensated absences to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	
	2,173,537
Certain liabilities, such as bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.	
Bonds and notes payable	(36,230,642)
Accrued interest payable	(182,127)
Unamortized bond premium	(439,877)
Certain pension and other postemployment benefit-related amounts, such as the net pension and other postemployment benefit liabilities and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(64,395,108)
Deferred outflows related to the net pension liability	17,855,812
Deferred inflows related to the net pension liability	(3,432,678)
Net other postemployment benefit liability	(21,921,486)
Deferred outflows related to the net other postemployment benefit liability	1,419,087
Deferred inflows related to the net other postemployment benefit liability	(741,106)
Net position of governmental activities	<u>\$ (52,077,519)</u>

The accompanying notes are an integral part of these financial statements.

CRESTWOOD SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2018

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 5,268,080	\$ 259,415	\$ 2,486,146	\$ 8,013,641
State sources	36,566,095	-	157,162	36,723,257
Intermediate sources	206,811	-	-	206,811
Federal sources	2,418,953	-	1,380,100	3,799,053
Total revenues	44,459,939	259,415	4,023,408	48,742,762
Expenditures				
Current:				
Instruction	30,386,991	-	-	30,386,991
Supporting services	11,979,655	-	-	11,979,655
Community services	119,524	-	-	119,524
Food service	-	-	1,593,835	1,593,835
Child care	-	-	195,802	195,802
Athletics	745,171	-	-	745,171
Payments to other districts	244,225	-	-	244,225
Debt service:				
Principal	56,053	-	1,275,035	1,331,088
Interest and fiscal charges	-	-	1,184,501	1,184,501
Capital outlay	-	9,140,334	-	9,140,334
Total expenditures	43,531,619	9,140,334	4,249,173	56,921,126
Revenues over (under) expenditures	928,320	(8,880,919)	(225,765)	(8,178,364)
Other financing sources (uses)				
Issuance of long-term debt	123,758	-	-	123,758
Transfers in	52,000	-	551,386	603,386
Transfers out	(551,386)	-	(52,000)	(603,386)
Total other financing sources (uses)	(375,628)	-	499,386	123,758
Net change in fund balances	552,692	(8,880,919)	273,621	(8,054,606)
Fund balances, beginning of year	6,695,880	34,703,112	577,100	41,976,092
Fund balances, end of year	\$ 7,248,572	\$ 25,822,193	\$ 850,721	\$ 33,921,486

The accompanying notes are an integral part of these financial statements.

CRESTWOOD SCHOOL DISTRICT

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2018

Net change in fund balances - total governmental funds	\$ (8,054,606)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital assets purchased/constructed	9,589,638
Depreciation expense	(574,497)
Revenues in the statement of activities that do not provide current resources are not reported as revenues in the funds.	
Change in unavailable revenues	131,383
An internal service fund is used by management to charge the costs of health, dental, vision insurance and compensated absences to individual funds. The net increase in the net position of the internal service fund is reported with governmental activities.	
	969,999
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term debt in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of net position.	
Issuance of long-term debt	(123,758)
Principal payments on long-term debt	1,331,088
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Amortization of bond premiums	19,125
Change in accrued interest payable on bonds	5,667
Change in the net pension liability and related deferred amounts	(1,246,344)
Change in the net other postemployment benefit liability and related deferred amounts	116,667
Change in net position of governmental activities	<u>\$ 2,164,362</u>

The accompanying notes are an integral part of these financial statements.

CRESTWOOD SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual

General Fund

For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources:				
Property taxes	\$ 3,515,952	\$ 3,436,052	\$ 3,433,209	\$ (2,843)
Other	2,022,800	2,012,800	1,834,871	(177,929)
State sources	35,157,431	36,647,408	36,566,095	(81,313)
Intermediate sources	110,000	193,000	206,811	13,811
Federal sources	2,653,474	3,235,364	2,418,953	(816,411)
Total revenues	43,459,657	45,524,624	44,459,939	(1,064,685)
Expenditures				
Instruction:				
Basic programs	22,215,687	22,642,602	22,494,543	(148,059)
Added needs	7,674,056	8,431,431	7,892,448	(538,983)
Total instruction	29,889,743	31,074,033	30,386,991	(687,042)
Supporting services:				
Pupil	1,944,369	2,244,118	2,009,856	(234,262)
Instructional services	1,194,959	1,086,414	1,083,525	(2,889)
General administration	720,077	752,480	760,731	8,251
School administration	2,055,545	2,128,667	2,155,737	27,070
Business	505,718	515,068	553,203	38,135
Maintenance	3,114,974	3,152,982	2,951,051	(201,931)
Transportation	1,684,000	1,579,578	1,581,163	1,585
Central services	575,602	959,035	884,389	(74,646)
Total supporting services	11,795,244	12,418,342	11,979,655	(438,687)
Community services	199,226	194,431	119,524	(74,907)
Athletics	719,896	722,604	745,171	22,567
Payments to other districts	290,000	245,000	244,225	(775)
Debt service - Principal	-	69,650	56,053	(13,597)
Total expenditures	42,894,109	44,724,060	43,531,619	(1,192,441)
Revenues over expenditures	565,548	800,564	928,320	127,756

continued...

CRESTWOOD SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual

General Fund

For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Other financing sources (uses)				
Issuance of long-term debt	\$ -	\$ -	\$ 123,758	\$ 123,758
Transfers in	73,000	60,000	52,000	(8,000)
Transfers out	<u>(527,376)</u>	<u>(560,210)</u>	<u>(551,386)</u>	<u>(8,824)</u>
Total other financing sources (uses)	<u>(454,376)</u>	<u>(500,210)</u>	<u>(375,628)</u>	<u>124,582</u>
Net change in fund balance	111,172	300,354	552,692	252,338
Fund balance, beginning of year	<u>6,695,880</u>	<u>6,695,880</u>	<u>6,695,880</u>	<u>-</u>
Fund balance, end of year	<u>\$ 6,807,052</u>	<u>\$ 6,996,234</u>	<u>\$ 7,248,572</u>	<u>\$ 252,338</u>

concluded.

The accompanying notes are an integral part of these financial statements.

CRESTWOOD SCHOOL DISTRICT

Statement of Net Position

Internal Service Fund

June 30, 2018

	Employee Benefits Fund
Assets	
Due from other funds	\$ 2,323,457
Prepaid items	218,594
	<hr/>
Total assets	2,542,051
	<hr/>
Liabilities	
Claims payable	241,757
Accrued compensated absences	126,757
	<hr/>
Total liabilities	368,514
	<hr/>
Net position	
Unrestricted	\$ 2,173,537
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

CRESTWOOD SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Position

Internal Service Fund

For the Year Ended June 30, 2018

	Employee Benefits Fund
Revenues	
Charges to other funds	\$ 4,947,075
Expenditures	
Incurred claims	<u>3,977,076</u>
Net change in net position	969,999
Net position, beginning of year	<u>1,203,538</u>
Net position, end of year	<u><u>\$ 2,173,537</u></u>

The accompanying notes are an integral part of these financial statements.

CRESTWOOD SCHOOL DISTRICT

Statement of Cash Flows

Internal Service Fund

For the Year Ended June 30, 2018

	Employee Benefits Fund
Cash flows from operating activities	
Cash received from interfund services	\$ 4,004,005
Cash paid for insurance premiums and compensated absences	<u>(4,004,005)</u>
Net change in cash and cash equivalents	-
Cash and cash equivalents, beginning of year	<u>-</u>
Cash and cash equivalents, end of year	<u><u>\$ -</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities	
Operating income	\$ 969,999
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Change in operating assets and liabilities that provided (used) cash:	
Due from other funds	(943,070)
Prepaid items	(12,926)
Claims payable	(18,081)
Accrued compensated absences	<u>4,078</u>
Net cash provided by operating activities	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

CRESTWOOD SCHOOL DISTRICT

Statement of Fiduciary Assets and Liabilities

June 30, 2018

	Agency Fund
Assets	
Cash and cash equivalents	<u>\$ 333,278</u>
Liabilities	
Accounts payable	\$ 2,118
Due to student groups	<u>331,160</u>
Total liabilities	<u>\$ 333,278</u>

The accompanying notes are an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Crestwood School District (the "District") has followed the guidelines of the Governmental Accounting Standards Board and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary 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. The District had no *business-type activities* during the year.

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

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

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. 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.

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

Property taxes, expenditure-driven grant revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for and reported in another fund.

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

Additionally, the District reports the following fund types:

Special revenue funds are used to account and report the proceeds of specific revenue sources that are restricted or committed for expenditures of specific purposes other than debt service or capital projects.

The *debt service fund* is used to account for all resources restricted, committed or assigned to expenditures for principal and interest.

The *internal service fund* accounts for the District's self-insured health and dental programs, as well as accrued compensated absence balances.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

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

The effect of interfund activity has been eliminated from the government-wide financial statements.

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

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the internal service fund is charges to other funds for employee benefits. Operating expenses for the internal service fund are comprised of self-insured benefit expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Equity

Deposits and investments

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

Investments include participation in an external investment pool. The District's shares are recorded at amortized cost, which approximates fair value. All other investments are reported at fair value.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Uncollected real property taxes are purchased by Wayne County and reimbursed to the District. No amounts have been identified as potentially uncollectible by management, and therefore, no amount has been recorded as a provision for bad debts.

Accounts payable and other payables reflected in the financial statements are based on when the liability is incurred.

Taxes are levied on July 1 and December 1 and are due and payable by August 31 and February 28, respectively.

Inventory and prepaids

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the food service fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Reported inventory is equally offset by a nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital assets

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

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

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and Improvements	10-45
Buses and other vehicles	5-8
Furniture and equipment	5-25
Software	6

Deferred outflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows of resources related to the net pension liability and the net other postemployment benefit liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

Compensated absences

Eligible employees are permitted to accumulate earned but unused vacation pay benefits in varying amounts based on length of service and certain other established criteria. Vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

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

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

Deferred inflows of resources

In addition to liabilities, the statement of financial 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 one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District's deferred inflows of resources are related to the pension and other postemployment benefit liabilities. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund equity

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. As applicable, *committed fund balance* is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action if the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. As applicable, the District reports *assigned fund balance* for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the general fund.

When the District incurs an expenditure for purposes for which various fund balance classifications can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

Pensions and other postemployment benefits

For purposes of measuring the net pension and other postemployment benefit liabilities, deferred outflows of resources and deferred inflows of resources related to pension and other postemployment benefits, and pension and other postemployment benefit expense, information about the fiduciary net position of the plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

2. BUDGETARY INFORMATION

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

The general and special revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the general and special revenue funds are adopted on a functional basis.

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

Excess of Expenditures over Appropriations in Budgetary Funds

Budget to actual comparisons for the general fund are presented in the fund financial statements at the legal level of budgetary control. During the year ended June 30, 2018, the District incurred expenditures in excess of appropriated amounts as follows:

	Final Budget	Actual	Variance
General fund			
Supporting services:			
General administration	\$ 752,480	\$ 760,731	\$ 8,251
School administration	2,128,667	2,155,737	27,070
Business	515,068	553,203	38,135
Transportation	1,579,578	1,581,163	1,585
Athletics	722,604	745,171	22,567

3. DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown on the Statement of Net Position and Statement of Fiduciary Assets and Liabilities is as follows:

Statement of Net Position	
Cash and cash equivalents	\$ 34,317,596
Statement of Fiduciary Assets and Liabilities	
Agency fund -	
Cash and cash equivalents	<u>333,278</u>
Total	<u>\$ 34,650,874</u>
Deposits and investments	
Bank deposits (checking/savings accounts)	\$ 8,275,424
MILAF investment funds	26,374,100
Petty cash	<u>1,350</u>
Total	<u>\$ 34,650,874</u>

Statutory Authority

State statutes authorize the District to invest in:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

- b. Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

Investments

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following investments:

Investment	Fair Value / Amortized Cost	Rating
Michigan Liquid Asset Fund:		
Cash management - money market	\$ 10,949,325	S&P-AAAm
U.S. agency bonds and notes	15,424,775	S&P-AA+
	<u>\$ 26,374,100</u>	

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of June 30, 2018, the District's investments had the following maturities:

	Fair Value	less than 1 year	1 - 5 years	Total
U.S. agency bonds and notes	<u>\$ 15,424,775</u>	<u>\$ 6,731,443</u>	<u>\$ 8,693,332</u>	<u>\$ 15,424,775</u>

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for investments are identified above for investments held at year end.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$8,318,246 of the District's bank balance of \$8,568,246 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimized this risk by prequalifying the financial institutions, brokers/dealers, intermediaries and advisors to be in compliance with the requirement set forth in the District's investment policy. None of the above investments are exposed to custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

Fair Value Measurement. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs.

The District's recurring fair value measurements as of June 30, 2018 are related to its investments in U.S. agency bonds and notes. The investments in U.S. agency bonds and notes are valued using significant other observable inputs (Level 2 inputs).

4. RECEIVABLES

Receivables as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	General	Nonmajor Governmental Funds	Total
Receivables			
Accounts	\$ -	\$ 3,000	\$ 3,000
Taxes	440,848	82,093	522,941
Due from other governments	7,116,078	39,264	7,155,342
Total receivables	<u>\$ 7,556,926</u>	<u>\$ 124,357</u>	<u>\$ 7,681,283</u>

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

5. CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated -				
Construction in progress	\$ 1,740,650	\$ 9,140,334	\$ -	\$ 10,880,984
Capital assets being depreciated:				
Buildings and improvements	21,425,515	325,546	-	21,751,061
Buses and other vehicles	149,980	-	-	149,980
Furniture and equipment	1,254,898	-	-	1,254,898
Software	166,238	123,758	-	289,996
	<u>22,996,631</u>	<u>449,304</u>	<u>-</u>	<u>23,445,935</u>
Less accumulated depreciation for:				
Buildings and improvements	(12,903,891)	(468,062)	-	(13,371,953)
Buses and other vehicles	(145,098)	(976)	-	(146,074)
Furniture and equipment	(839,492)	(59,561)	-	(899,053)
Software	(99,741)	(45,898)	-	(145,639)
	<u>(13,988,222)</u>	<u>(574,497)</u>	<u>-</u>	<u>(14,562,719)</u>
Total capital assets being depreciated, net	<u>9,008,409</u>	<u>(125,193)</u>	<u>-</u>	<u>8,883,216</u>
Governmental activities capital assets, net	<u>\$ 10,749,059</u>	<u>\$ 9,015,141</u>	<u>\$ -</u>	<u>\$ 19,764,200</u>

Depreciation expense of \$574,497 was reported as unallocated depreciation and not charged to specific functions.

At June 30, 2018, the District had outstanding construction commitments through construction contracts of approximately \$4.6 million in relation to the ongoing bond projects.

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

6. PAYABLES

Accounts payable and accrued liabilities as of year end for the District's individual major funds, nonmajor funds in the aggregate, and the internal service fund, are as follows:

	General	Capital Projects Fund	Nonmajor Governmental Funds	Employee Benefits Internal Service Fund	Total
Payables					
Accounts payable	\$ 579,925	\$ 1,990,803	\$ 5,037	\$ -	\$ 2,575,765
Accrued salaries and related liabilities	3,512,639	-	-	-	3,512,639
Claims payable	-	-	-	241,757	241,757
	<u>\$ 4,092,564</u>	<u>\$ 1,990,803</u>	<u>\$ 5,037</u>	<u>\$ 241,757</u>	<u>6,330,161</u>
Accrued interest on long-term debt					<u>182,127</u>
Total accounts payable and accrued liabilities					<u>\$ 6,512,288</u>

7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

At June 30, 2018, interfund receivables and payables consisted of the following:

	Due From	Due To
General	\$ -	\$ 2,548,642
Capital projects fund	-	232
Nonmajor governmental funds	230,836	5,419
Employee benefits fund	<u>2,323,457</u>	<u>-</u>
	<u>\$ 2,554,293</u>	<u>\$ 2,554,293</u>

These 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.

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

For the year ended June 30, 2018, interfund transfers consisted of the following:

Transfers out	Transfers in		
	General Fund	Nonmajor Governmental Funds	Totals
General	\$ -	\$ 551,386	\$ 551,386
Nonmajor governmental funds	52,000	-	52,000
	<u>\$ 52,000</u>	<u>\$ 551,386</u>	<u>\$ 603,386</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2018, the District transferred funds from the general fund to the debt service fund to cover debt service payments, from the general fund to the nonmajor child care fund to subsidize program costs, and from the nonmajor food service fund to the general fund to reimburse allocable costs.

8. LONG-TERM DEBT

In 2011, the District issued 2011 School Building and Site Bonds (general obligation - limited tax) in the amount of \$3,200,000. Payment is due in installments of \$100,000 to \$245,000 through May 2031 with interest at 3.00% to 5.00%.

In 2016, the District issued 2016 School Building and Site Bonds (general obligation - limited tax) in the amount of \$34,520,000. Payment is due in installments of \$960,000 to \$2,020,000 through May 2041 with interest at 3.00%.

A note was issued in 2008 to finance infrastructure energy improvements in the amount of \$2,579,087. Repayment is due in bi-annual installments of \$121,178 (including interest at 4.75%) through June 2023.

A note was issued in 2015 to finance the purchase and licensing of Imagine Learning Software in the amount of \$166,238. The District increased the note in the current year to purchase additional licenses and software in the amount of \$123,758. Repayment is due in annual installments of \$44,400 (noninterest-bearing) through June 2021.

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

Long-term debt activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 36,120,000	\$ -	\$ (1,090,000)	\$ 35,030,000	\$ 1,125,000
Energy improvement notes	1,252,477	-	(185,035)	1,067,442	193,929
Software notes	65,495	123,758	(56,053)	133,200	44,400
Total installment debt	37,437,972	123,758	(1,331,088)	36,230,642	1,363,329
Premium on issuance of debt	459,002	-	(19,125)	439,877	19,125
Accrued compensated absences	122,679	38,717	(34,639)	126,757	126,757
	<u>\$ 38,019,653</u>	<u>\$ 162,475</u>	<u>\$ (1,384,852)</u>	<u>\$ 36,797,276</u>	<u>\$ 1,509,211</u>

The annual requirements to amortize all installment debt outstanding as of June 30, 2018, are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 1,363,329	\$ 1,141,189	\$ 2,504,518
2020	1,412,650	1,096,768	2,509,418
2021	1,457,419	1,050,599	2,508,018
2022	1,463,258	1,002,860	2,466,118
2023	1,513,986	952,936	2,466,922
2024-2028	7,070,000	4,072,750	11,142,750
2029-2033	7,770,000	2,847,100	10,617,100
2034-2038	8,320,000	1,648,350	9,968,350
2039-2041	5,860,000	355,800	6,215,800
	<u>\$ 36,230,642</u>	<u>\$ 14,168,352</u>	<u>\$ 50,398,994</u>

The general fund is responsible for liquidating compensated absences.

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

9. RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. For its general property and liability insurance coverage, the District is a participant in the Metropolitan Association for Improved School Legislation Joint Risk Management Trust (MAISL), a public entity risk pool for benefit of 35 school districts located in the metropolitan area. The District pays an annual premium to MAISL for this liability coverage. MAISL is considered a self-sustaining risk pool that will provide coverage for its members for up to \$400,000 per insured event. MAISL obtains unlimited independent coverage for insured events in excess of the \$400,000 limit.

For its workers' compensation insurance coverage, the District is a participant in the MAISL Worker's Compensation Fund, a public entity risk pool for the benefit of 12 school districts located in the area. The District pays an annual premium to MAISL and coverage is provided for up to \$350,000 per insured event. MAISL obtains independent coverage for insured in excess of the \$350,000 limit. Settled claims have not exceeded excess coverage for the past three years.

An independent third party administers the District's self-insured health and dental benefit program.

Changes in the balances of claims liabilities for the health and life benefit programs during the past two years are as follows:

	Year Ended June 30,	
	2018	2017
Accrued claims, beginning of year	\$ 259,838	\$ 177,559
Incurred claims	3,977,076	4,513,013
Claim payments	(3,995,157)	(4,430,734)
	<u>\$ 241,757</u>	<u>\$ 259,838</u>

The claim liability at June 30, 2018 is reported in the employee benefits internal service fund.

10. PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS

Plan Description

The Michigan Public School Employees' Retirement System (the "System" or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "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. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

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

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

The System's financial statements are available at the ORS website at www.michigan.gov/orsschools.

Pension Benefits Provided

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

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

Other Postemployment Benefits Provided

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

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

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

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

Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 22-year period for the 2017 fiscal year.

The table below summarizes pension contribution rates in effect for fiscal year 2018:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	17.89% - 19.03%
Member Investment Plan (MIP)	3.00% - 7.00%	17.89% - 19.03%
Pension Plus	3.00% - 6.40%	16.61% - 18.40%
Pension Plus 2	6.20%	19.74%
Defined Contribution	0.00%	13.54% - 15.27%

Required contributions to the pension plan from the District were \$6,846,634 for the year ended June 30, 2018.

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

The table below summarizes OPEB contribution rates in effect for fiscal year 2018:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	5.91% - 7.67%
Personal Healthcare Fund (PHF)	0.00%	5.69% - 7.42%

Required contributions to the OPEB plan from the District were \$1,575,163 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$64,395,108 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was 0.24849%, which was an increase of 0.01015% from its proportion measured as of September 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$8,153,622. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ 559,637	\$ 315,973	\$ 243,664
Changes in assumptions	7,054,996	-	7,054,996
Net difference between projected and actual earnings on pension plan investments	-	3,078,510	(3,078,510)
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,898,571	38,195	3,860,376
	11,513,204	3,432,678	8,080,526
District contributions subsequent to the measurement date	6,342,608	-	6,342,608
Total	\$ 17,855,812	\$ 3,432,678	\$ 14,423,134

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

\$6,342,608 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 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,	Amount
2019	\$ 2,652,107
2020	3,558,080
2021	1,728,093
2022	<u>142,246</u>
Total	<u>\$ 8,080,526</u>

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

At June 30, 2018, the District reported a liability of \$21,921,486 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was 0.24755%.

For the year ended June 30, 2018, the District recognized OPEB expense of \$1,466,535. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 233,399	\$ (233,399)
Net difference between projected and actual earnings on OPEB plan investments	-	507,707	(507,707)
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>1,161</u>	<u>-</u>	<u>1,161</u>
	1,161	741,106	(739,945)
District contributions subsequent to the measurement date	<u>1,417,926</u>	<u>-</u>	<u>1,417,926</u>
Total	<u>\$ 1,419,087</u>	<u>\$ 741,106</u>	<u>\$ 677,981</u>

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

\$1,417,926 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2019	\$ (178,830)
2020	(178,830)
2021	(178,830)
2022	(178,830)
2023	<u>(24,625)</u>
Total	<u>\$ (739,945)</u>

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension and OPEB liabilities in the September 30, 2016 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	7.5%
Pension Plus plan (hybrid)	7.0%
OPEB plans	7.5%
Projected salary increases	3.5% - 12.3%, including wage inflation at 3.5%
Cost of living adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	7.5% Year 1 graded to 3.5% Year 12
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

Other OPEB assumptions:

Opt out assumptions	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 coverages 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.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.5188 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.4744 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

Long-term Expected Return on Plan Assets

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.60%	1.56%
Alternative investment pools	18.00%	8.70%	1.57%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	-0.10%	-0.01%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.00%	0.78%
Short-term investment pools	2.00%	-0.90%	-0.02%
	<u>100.00%</u>		<u>5.45%</u>
Inflation			<u>2.05%</u>
Investment rate of return			<u>7.50%</u>

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

Discount Rate

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

Sensitivity of District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for the Hybrid Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$ 83,885,407	\$ 64,395,108	\$ 47,985,517

Sensitivity of District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net OPEB liability	\$ 25,676,396	\$ 21,921,486	\$ 18,734,743

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

Sensitivity of District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

The following presents the District's proportionate share of the net OPEB liability calculated using the assumed trend rates, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is 1 percentage point lower or 1 percentage higher:

	1% Decrease (6.5%)	Current Healthcare Cost Trend Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net OPEB liability	\$ 18,564,552	\$ 21,921,486	\$ 25,733,050

Pension and OPEB Plans Fiduciary Net Position

Detailed information about the pension and OPEB plan's fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at www.michigan.gov/orsschools.

Payable to the Pension Plan

At June 30, 2018, the District reported a payable of \$938,789 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2018.

Payable to the OPEB Plan

At June 30, 2018, the District reported a payable of \$200,557 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2018.

11. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2018, was as follows:

Capital assets not being depreciated	\$ 10,880,984
Capital assets being depreciated, net	8,883,216
Bonds and notes payable	(36,230,642)
Premium on issuance of debt	(439,877)
Capital projects restricted fund balance (unexpended bond proceeds)	<u>24,383,065</u>
Net investment in capital assets	<u>\$ 7,476,746</u>

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

12. FUND BALANCES - GOVERNMENTAL FUNDS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is presented as follows:

	General	Capital Projects Fund	Nonmajor Governmental Funds	Total
Nonspendable:				
Inventories	\$ -	\$ -	\$ 23,089	\$ 23,089
Prepays	447,742	-	-	447,742
Total nonspendable	447,742	-	23,089	470,831
Restricted for:				
Food service	-	-	632,858	632,858
Capital projects	-	24,383,065	-	24,383,065
Debt service	-	-	194,774	194,774
Total restricted	-	24,383,065	827,632	25,210,697
Committed for -				
Capital projects	-	1,439,128	-	1,439,128
Unassigned	6,800,830	-	-	6,800,830
Total fund balances	\$ 7,248,572	\$ 25,822,193	\$ 850,721	\$ 33,921,486

13. CONTINGENCIES

Federal Grant Programs

The District participates in federally assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, not to be material.

Litigation

In the normal course of its activities, the District is a party in various legal actions and subject to certain asserted and unasserted claims and assessments. Management of the District is of the opinion that the outcome of such actions will not have a material effect on the financial position of the District and, therefore, has not reflected loss reserves in the financial statements.

CRESTWOOD SCHOOL DISTRICT

Notes to the Financial Statements

14. BONDED CONSTRUCTION COSTS

The capital project fund records capital project activities funded with bonds issued after May 1, 1994. For this fund, the District has complied with the applicable provisions of §1351(a) of the Michigan Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

15. RESTATEMENT

The District adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in the current year. As a result of this change, beginning net position of governmental activities was decreased by \$21,360,172.

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REQUIRED SUPPLEMENTARY INFORMATION

CRESTWOOD SCHOOL DISTRICT

Required Supplementary Information MPERS Cost-Sharing Multiple-Employer Plan

Schedule of the District's Proportionate Share of the Net Pension Liability

	Year Ended June 30,			
	2015	2016	2017	2018
District's proportion of the net pension liability	\$ 48,224,905	\$ 56,523,036	\$ 59,464,548	\$ 64,395,108
District's proportionate share of the net pension liability	0.21894%	0.23141%	0.23834%	0.24849%
District's covered payroll	\$ 18,697,810	\$ 19,429,093	\$ 20,332,373	\$ 21,052,232
District's proportionate share of the net pension liability as a percentage of its covered payroll	257.92%	290.92%	292.46%	305.88%
Plan fiduciary net position as a percentage of the total pension liability	66.20%	63.17%	63.27%	64.21%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Schedule of the District's Pension Contributions

	Year Ended June 30,			
	2015	2016	2017	2018
Statutorily required contribution	\$ 4,197,278	\$ 5,393,431	\$ 5,811,158	\$ 6,846,634
Contributions in relation to the statutorily required contribution	(4,197,278)	(5,393,431)	(5,811,158)	(6,846,634)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 19,361,773	\$ 20,439,914	\$ 21,001,243	\$ 21,880,097
Contributions as a percentage of covered payroll	21.68%	26.39%	27.67%	31.29%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CRESTWOOD SCHOOL DISTRICT

Required Supplementary Information MPERS Cost-Sharing Multiple-Employer Plan

Schedule of the District's Proportionate Share of the Net Other Postemployment Benefit (OPEB) Liability

	Year Ended June 30, 2018
District's proportion of the net OPEB liability	\$ 21,921,486
District's proportionate share of the net OPEB liability	0.24755%
District's covered payroll	\$ 21,052,232
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	104.13%
Plan fiduciary net position as a percentage of the total OPEB liability	36.39%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Schedule of the District's Other Postemployment Benefit Contributions

	Year Ended June 30, 2018
Statutorily required contribution	\$ 1,575,163
Contributions in relation to the statutorily required contribution	<u>(1,575,163)</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
District's covered payroll	\$ 21,880,097
Contributions as a percentage of covered payroll	7.20%

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

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COMBINING FUND FINANCIAL STATEMENTS

CRESTWOOD SCHOOL DISTRICT

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2018

	Special Revenue Funds			
	Food Service	Child Care	Debt Service Fund	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 369,058	\$ 5,599	\$ 111,418	\$ 486,075
Accounts receivable	-	3,000	-	3,000
Taxes receivable	-	-	82,093	82,093
Due from other governments	39,264	-	-	39,264
Due from other funds	229,573	-	1,263	230,836
Inventories	23,089	-	-	23,089
Total assets	\$ 660,984	\$ 8,599	\$ 194,774	\$ 864,357
Liabilities				
Accounts payable	\$ 5,037	\$ -	\$ -	\$ 5,037
Due to other funds	-	5,419	-	5,419
Unearned revenue	-	3,180	-	3,180
Total liabilities	5,037	8,599	-	13,636
Fund balances				
Nonspendable	23,089	-	-	23,089
Restricted	632,858	-	194,774	827,632
Total fund balances	655,947	-	194,774	850,721
Total liabilities and fund balances	\$ 660,984	\$ 8,599	\$ 194,774	\$ 864,357

CRESTWOOD SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2018

	Special Revenue Funds			
	Food Service	Child Care	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues				
Local sources	\$ 331,263	\$ 132,471	\$ 2,022,412	\$ 2,486,146
State sources	144,748	12,414	-	157,162
Federal sources	1,380,100	-	-	1,380,100
Total revenues	1,856,111	144,885	2,022,412	4,023,408
Expenditures				
Current:				
Food service	1,593,835	-	-	1,593,835
Child care	-	195,802	-	195,802
Debt service:				
Principal	-	-	1,275,035	1,275,035
Interest and fiscal charges	-	-	1,184,501	1,184,501
Total expenditures	1,593,835	195,802	2,459,536	4,249,173
Revenues over (under) expenditures	262,276	(50,917)	(437,124)	(225,765)
Other financing sources (uses)				
Transfers in	8,000	50,917	492,469	551,386
Transfers out	(52,000)	-	-	(52,000)
Total other financing sources (uses)	(44,000)	50,917	492,469	499,386
Net change in fund balances	218,276	-	55,345	273,621
Fund balances, beginning of year	437,671	-	139,429	577,100
Fund balances, end of year	\$ 655,947	\$ -	\$ 194,774	\$ 850,721

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SINGLE AUDIT ACT COMPLIANCE

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INDEPENDENT AUDITORS' REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE

October 22, 2018

Board of Education
Crestwood School District
Dearborn Heights, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Crestwood School District* (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements. We issued our report thereon dated October 22, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Rehmann Robson LLC

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CRESTWOOD SCHOOL DISTRICT

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

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through
U.S. Department of Agriculture		
Child Nutrition Cluster:		
National School Breakfast Program	10.553	MDE
National School Breakfast Program	10.553	MDE
National School Lunch - Entitlement (non-cash assistance)	10.555	MDE
National School Lunch Program - Section 4	10.555	MDE
National School Lunch Program - Section 4	10.555	MDE
Total U.S. Department of Agriculture		
U.S. Department of Education		
Title I, Part A - Grants to Local Educational Agencies:		
2016-17	84.010	MDE
2017-18	84.010	MDE
Title II, Part A - Improving Teacher Quality State Grants:		
2016-17	84.367	MDE
2017-18	84.367	MDE
Title III, Part A - English Language Acquisition State Grants:		
2016-17	84.365	MDE
2017-18	84.365	MDE
Vocational Education Basic Grants to States - Perkins II	84.048A	DHSD7
Special Education Cluster:		
Special Educations Grants to States:		
2016-17 Flowthrough	84.027	WCRESA
2017-18 Flowthrough	84.027	WCRESA
Special Educations Preschool Grants:		
2016-17 Preschool	84.173	WCRESA
2017-18 Preschool	84.173	WCRESA
Total Special Education Cluster		
Total U.S. Department of Education		

Pass-through / Grantor Number	Approved Award Amount	Accrued (Unearned) Revenue at July 1, 2017	(Memo Only) Prior Year Expenditures	Federal Expenditures	Federal Funds / Payments In-Kind Received	Accrued (Unearned) Revenue at June 30, 2018
171970	\$ 214,557	\$ 12,752	\$ 214,557	\$ -	\$ 12,752	\$ -
181970	228,482	-	-	228,482	221,416	7,066
		<u>12,752</u>	<u>214,557</u>	<u>228,482</u>	<u>234,168</u>	<u>7,066</u>
N/A	83,972	-	-	83,972	83,972	-
171960	931,133	50,852	931,133	-	50,852	-
181960	1,067,646	-	-	1,067,646	1,035,450	32,196
		<u>50,852</u>	<u>931,133</u>	<u>1,151,618</u>	<u>1,170,274</u>	<u>32,196</u>
		<u>63,604</u>	<u>1,145,690</u>	<u>1,380,100</u>	<u>1,404,442</u>	<u>39,262</u>
171530-1617	1,699,080	496,003	1,354,643	111,035	607,038	-
181530-1718	1,946,137	-	-	1,400,898	1,172,868	228,030
		<u>496,003</u>	<u>1,354,643</u>	<u>1,511,933</u>	<u>1,779,906</u>	<u>228,030</u>
170520-1617	125,400	12,563	62,374	2,402	14,965	-
180520-1718	340,461	-	-	170,555	170,166	389
		<u>12,563</u>	<u>62,374</u>	<u>172,957</u>	<u>185,131</u>	<u>389</u>
170580-1617	128,553	40,937	84,592	8,777	49,714	-
180580-1718	126,190	-	-	63,790	82,638	(18,848)
		<u>40,937</u>	<u>84,592</u>	<u>72,567</u>	<u>132,352</u>	<u>(18,848)</u>
N/A	3,900	-	-	3,900	3,900	-
N/A	670,950	287,413	601,563	69,387	287,413	69,387
N/A	659,647	-	-	547,538	374,158	173,380
		<u>287,413</u>	<u>601,563</u>	<u>616,925</u>	<u>661,571</u>	<u>242,767</u>
N/A	21,492	9,764	21,492	-	9,764	-
N/A	32,715	-	-	32,715	23,492	9,223
		<u>9,764</u>	<u>21,492</u>	<u>32,715</u>	<u>33,256</u>	<u>9,223</u>
		<u>297,177</u>	<u>623,055</u>	<u>649,640</u>	<u>694,827</u>	<u>251,990</u>
		<u>846,680</u>	<u>2,124,664</u>	<u>2,410,997</u>	<u>2,796,116</u>	<u>461,561</u>

continued...

CRESTWOOD SCHOOL DISTRICT

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

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through
U.S. Department of Health and Human Services Medicaid Cluster - Medicaid Outreach 17-18	93.778	WCRESA
Total Federal Financial Assistance		

See notes to the schedule of expenditures of federal awards.



Pass-through / Grantor Number	Approved Award Amount	Accrued (Unearned) Revenue at July 1, 2017	(Memo Only) Prior Year Expenditures	Federal Expenditures	Federal Funds / Payments In-Kind Received	Accrued (Unearned) Revenue at June 30, 2018
N/A	\$ 7,956	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,956</u>	<u>\$ 5,925</u>	<u>\$ 2,031</u>
		<u>\$ 910,284</u>	<u>\$ 3,270,354</u>	<u>\$ 3,799,053</u>	<u>\$ 4,206,483</u>	<u>\$ 502,854</u>

concluded.

CRESTWOOD SCHOOL DISTRICT

Notes to the Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Crestwood School District (the "District") 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 the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

2. RECONCILIATION OF BASIC FINANCIAL STATEMENTS

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. 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. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

The Schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this Schedule.

For purposes of charging indirect costs to federal awards, the District has not elected to use the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

3. PASS-THROUGH AGENCIES

The District receives certain federal grants as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDE	Michigan Department of Education
WCRESA	Wayne County Regional Education Service Agency
DHSD7	Dearborn Heights Schools District 7

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

October 22, 2018

Board of Education
Crestwood School District
Dearborn Heights, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 *Crestwood School District* (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 22, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, 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*.

Crestwood School District's Response to the Finding

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Rehmann Johnson LLC". The signature is written in a cursive, flowing style.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

October 22, 2018

Board of Education
Crestwood School District
Dearborn Heights, Michigan

Report on Compliance for the Major Federal Program

We have audited the compliance of *Crestwood School District* (the "District") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2018. The District's major federal program is identified in the summary of auditors' 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.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 Requirement, 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 the District's 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 the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

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

Report on Internal Control Over Compliance

Management of the District 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 the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 the District's 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 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.

Purpose of this Report

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.

Rehmann Johnson LLC

CRESTWOOD SCHOOL DISTRICT

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

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether
the financial statements audited were prepared
in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes

X no

Significant deficiency(ies) identified?

X yes

_____ none reported

Noncompliance material to financial statements
noted?

_____ yes

X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ yes

X no

Significant deficiency(ies) identified?

_____ yes

X none reported

Any audit findings disclosed that are required
to be reported in accordance with
2 CFR 200.516(a)?

_____ yes

X no

Identification of major programs and type of auditors'
report issued on compliance for each major program:

CFDA Number

Name of Federal Program or Cluster

Type of Report

10.553/10.555

Child Nutrition Cluster

Unmodified

Dollar threshold used to distinguish between Type A
and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

X yes

_____ no

CRESTWOOD SCHOOL DISTRICT

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

SECTION II - FINANCIAL STATEMENT FINDINGS

2018-001 - Independent Review of Manual Journal Entries (Repeat Comment)

Finding Type. Significant Deficiency in Internal Control over Financial Reporting

Criteria. Management is responsible for establishing effective internal controls to safeguard the District's assets, and to prevent or detect misstatements to the financial statements. Manual journal entries, while an essential part of any accounting system, represent an opportunity to enter information into the District's records in a way that bypasses normal internal controls. Accordingly, the District should have a system in place to ensure that all manual journal entries and similar adjustments made to the District's accounting records are reviewed and approved by an appropriate member of management, independent of the preparer.

Condition. The District's policies and procedures in place during the fiscal year under audit did not require an independent review or approval of manual journal entries made by members of senior management.

Cause. This condition is a result of the District's limited resources, and the small size of its accounting staff.

Effect. While we are not aware of any actual misstatements caused by this condition, the District was nevertheless exposed to an increased risk that misstatements, whether caused by error or fraud, could occur and not be detected by management in a timely manner.

Recommendation. We recommend that the District establish a procedure requiring written, independent review and approval for all manual journal entries, including transactions that are recurring in nature. This review should be evidenced by signature/initials and date, attached to the supporting documentation, and retained for audit purposes.

Corrective Action. All journal entries will be reviewed for accuracy, propriety, and documentation by someone other than the person writing the entry. Written documentation verifying this review will be maintained by the business office.

Responsible Official. Director of Business Operations

Estimated Completion Date. June 2019

CRESTWOOD SCHOOL DISTRICT

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

SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS

None reported.

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CRESTWOOD SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2018

2017-001 - Independent Review of Manual Journal Entries (Repeat Comment)

The District's policies and procedures in place during the fiscal year under audit did not require an independent review or approval of manual journal entries made by members of senior management. While the auditors were not aware of any actual misstatements caused by this condition, the District was nevertheless exposed to an increased risk that misstatements, whether caused by error or fraud, could occur and not be detected by management in a timely manner. This matter was repeated as finding 2018-001.

2017-002 - Equipment and Real Property Management

The District had not conducted a physical inventory of equipment within the past two fiscal years. In addition, the District's capital asset records did not include a proper designation for those assets purchased with federal funds. The District conducted a physical inventory of equipment in the current year and updated the capital asset records to include proper designations for equipment purchased with federal funds. As a result, this finding has been adequately resolved.

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