

Tekonsha Community Schools

Financial Report
With Supplemental Information

Year Ended June 30, 2018

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WILLIS & JURASEK

CPAS AND CONSULTANTS

Independent Auditors' Report

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with accounting 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 Tekonsha Community Schools as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 14 to the financial statements, during the year ended June 30, 2018, Tekonsha Community Schools implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule, and certain pension information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 Tekonsha Community Schools' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the financial statements.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information 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 other supplemental information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 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 the 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 Tekonsha Community Schools' internal control over financial reporting and compliance.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.
September 27, 2018

Tekonsha Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2018

As administration of Tekonsha Community Schools, Counties of Branch and Calhoun, State of Michigan, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018.

Financial Highlights

- Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented in fiscal year 2018. The purpose of this standard is to improve accounting and financial reporting for other postemployment benefits (OPEB). It established standards for measuring and recognizing OPEB liabilities, OPEB expenses, and the related deferred inflows and deferred outflows of resources. Implementation of this standard requires recording of the full unfunded portion of the District's OPEB plan administered through the Michigan Public School Employees' Retirement System (MPSERS). The unfunded OPEB liability has been established through actuarial valuations and will be amortized over a 22 year period beginning with the plan's fiscal year-end of September 30, 2017. With the recording of this OPEB liability and the previous recorded pension liability, the liabilities of the District exceeded its assets. The balance of the net position at the close of the most recent fiscal year was \$(2,176,231) (negative net position).
- The District's total net assets decreased by \$297,153.
- As of the close of the current fiscal year, the District's aggregated fund balance for the District's governmental funds was \$2,167,980.
- The General Fund had a net change in fund balance of \$(146,817). At the end of the year, the total fund balance for the General Fund was \$326,007 or 11.6 percent of the total General Fund expenditures and outgoing transfers.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The financial statements then proceed to provide an increasingly detailed look at specific financial activities included in the fund financial statements. 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 provide information about the School District's most significant fund – the General Fund.

Reporting the District as a Whole

The Statement of Net Position and Statement of Activities – One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the School District's financial statements, report information about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by private-sector corporations. However, the School District's goal is to provide services to our students, not to generate profits, as private-sector corporations do. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The Statement of Net Position and Statement of Activities present information about the following:

Governmental Activities – All of the District's basic services are considered to be governmental activities, including instruction, support services, community services, athletics, food services, and transfers to other local

Tekonsha Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2018

districts. Property taxes, intergovernmental revenues, (unrestricted and restricted State Aid), and charges for services finance most of these activities.

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

The district-wide financial statements can be found on pages 1- 2 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements – The fund financial statements provide detailed information about the most significant funds – not the District as a whole. The fund financial statements begin on page 3 and provide detailed information about the most significant funds. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's *Accounting Manual*. The District's two types of funds: governmental funds and fiduciary funds use different accounting approaches as further discussed in the Notes to Financial Statements.

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future years' debt obligations are not recorded.

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

The basic governmental fund financial statements can be found on pages 3 and 5 of this report.

Fiduciary Funds – The District is the fiduciary for various student group activities. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets.

The basic fiduciary fund financial statements can be found on page 7 of this report.

Additional Information – The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to Financial Statements can be found on pages 8 – 25 of this report.

Government-Wide Financial Analysis

The government-wide financial analysis focuses on the net position and changes in net position of the District's governmental activities. As noted earlier, net position may serve over time as a useful indicator of a government's financial position.

Tekonsha Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2018

The following is a summary of the School District's net position as of June 30, 2018 and 2017:

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Assets:		
Current assets	\$ 2,616,015	\$ 908,665
Non-current assets	1,630,958	1,641,023
Total assets	<u>4,246,973</u>	<u>2,549,688</u>
Deferred Outflows of Resources	<u>998,331</u>	<u>597,382</u>
Liabilities:		
Current liabilities	470,895	365,718
Non-current liabilities	<u>6,581,405</u>	<u>3,324,403</u>
Total liabilities	<u>7,052,300</u>	<u>3,690,121</u>
Deferred Inflows of Resources	<u>369,235</u>	<u>124,737</u>
Net Position:		
Invested in capital assets - net of related debt	(265,746)	1,568,797
Restricted	1,738,571	99,012
Unrestricted	<u>(3,649,056)</u>	<u>(2,335,597)</u>
Total net position	<u>\$ (2,176,231)</u>	<u>\$ (667,788)</u>

The above analysis focuses on the net position. The change in net position of the School District's governmental activities is discussed below. The net position differs from fund balances and reconciliation appears on page 4.

By far the largest portion of the District's net position reflects its investment in capital assets (i.e. land, buildings, vehicles, and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position of \$1,738,571 represents resources that are subject to external restrictions on how they may be used. In the case of the School District, these included amounts restricted for capital projects and athletic activities. The remaining balance of \$(3,649,056), which is *unrestricted* net position, may be used to meet the District's ongoing obligations to citizens and creditors.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities which shows the change in net position for fiscal year 2018.

Tekonsha Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2018

The following is a summary of the changes in net position for the years ended June 30, 2018 and 2017:

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Revenues:		
Program revenues:		
Charges for services	\$ 39,548	\$ 34,668
Operating grants	970,079	881,074
General revenues:		
Property taxes - general purpose	318,394	322,154
Property taxes - capital projects and debt service	64,314	63,385
Unrestricted federal and State aid	1,503,961	1,571,266
Other	18,289	55,962
Total revenues	<u>2,914,585</u>	<u>2,928,509</u>
Functions/Program Expenses:		
Instruction	1,688,975	1,550,588
Support services	1,133,579	1,127,181
Food service activities	176,099	178,559
Community service	-	-
Capital outlay	55,823	2,100
Interest	19,816	1,701
Depreciation (unallocated)	137,446	136,838
Total expenses	<u>3,211,738</u>	<u>2,996,967</u>
Increase (decrease) in net position	(297,153)	(68,458)
Net position beginning of year	(1,879,078)	(599,330)
Entry to record OPEB liability and related at June 30, 2017	<u>-</u>	<u>(1,211,290)</u>
Ending net position	<u>\$ (2,176,231)</u>	<u>\$ (1,879,078)</u>

The District's net position decreased by \$297,153 during the current fiscal year. The decrease in net position differs from the change in fund balances and a reconciliation appears on page 6.

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

General Fund Budgeting and Operating Highlights

The School District's budgets are prepared according to Michigan Law. The most significant budgeted funds are the General Fund and the non-major governmental fund for Food Service.

During the fiscal year ended June 30, 2018, the School District amended the budgets of these governmental funds two times. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's General Fund original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Tekonsha Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2018

The General Fund actual revenue and other financing sources was \$2,654,635. That amount is below the amended budget estimate of \$2,707,121. The variance, considered immaterial by management, is a combination of minor differences among local, State, federal, and other sources.

The actual expenditures and other financing uses of the General Fund were \$2,801,452, which is below the amended budget estimate of \$2,824,291. The variance can be attributed to two main areas: salaries and benefits and cost containment. The budget variance in salaries and salary related benefits (retirement, social security, etc.) were mainly attributed to the calculation rates of individuals retirement and health care costs. The District's cost containment and utilization of supplies on hand as well as close scrutiny by administrators and supervisors of purchases helped with the variance in the budget.

The General Fund had total revenues and transfers in of \$2,654,635 and total expenditures and transfers out of \$2,801,452 with a net change in fund balance of \$(146,817) and an ending fund balance of \$326,007. The current year increase was more than expected due to leaving budgeted amounts high for year-end adjustments. The Board and Administration is still monitoring the fund balance to ensure the District has sufficient reserves for unexpected items.

Capital Asset and Debt Administration

Capital Assets – At the end of the fiscal year 2018, the School District had \$5,517,232 invested in land and buildings, furniture and equipment, and buses. Of this amount, \$3,886,274 in depreciation has been taken over the years. We currently have a net book value of \$1,630,958.

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Land	\$ 40,000	\$ 40,000
Buildings and improvements	4,006,648	3,965,752
Furniture and equipment	1,189,444	1,102,959
Buses and other vehicles	281,140	281,140
Total capital assets	<u>5,517,232</u>	<u>5,389,851</u>
Less accumulated depreciation	<u>3,886,274</u>	<u>3,748,828</u>
Net capital assets	<u><u>\$ 1,630,958</u></u>	<u><u>\$ 1,641,023</u></u>

During the current year, the District replaced some flooring in the high school, replaced a scoreboard, and purchased various other equipment and technology.

Long-Term Debt – At June 30, 2018, the District had no outstanding bonds but did have some outstanding long-term debt related to capital leases and an amount owed to the Michigan Department of Education.

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Michigan Department of Education	\$ 13,491	\$ 26,982
Capital leases	13,213	45,244
2018 Building & Site Bonds	1,870,000	-
Total	<u><u>\$ 1,896,704</u></u>	<u><u>\$ 72,226</u></u>

The District's MDE debt increased due to issuance of new building and site bonds during the year.

Additional information on the District's long-term debt can be found in Note 8 on page 16 of this report.

Tekonsha Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2018

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2017-2018 fiscal year budget. The 2018-2019 budget was adopted in June 2018, and it anticipates a decrease of \$92,241 in the fund balance.

The following factors were considered in preparing the School District's budget for the 2018-2019 fiscal year:

- The School District receives a "foundation allowance" from the State of Michigan for each student it educates. The preliminary budget used the foundation amount for 2018-2019 of \$7,871. This is an increase of \$240 from what was received in 2017-2018.
- One of the important factors affecting the budget is student count. The 2017-2018 student count was lower than the year before. The conservative budgeted amount of students is 239, however, it is anticipated that the student count will remain steady around 246 pupils.
- Retirement rate offset paid by the State will continue leveling off retirement costs to the District.
- Healthcare costs are capped in accordance with Department of Treasury guidelines. The 2019 levels have a 1.9% increase included for the medical CPI.
- The District expects increases in staff salary cost in accordance to the master contract.
- Future cuts, cost containment, and revenue sources may need to be explored to keep future budgets into balance.

Requests for Information

This financial report is designed to provide a general overview of the Tekonsha Community Schools' finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Superintendent's office at 245 South Elm Street, Tekonsha, Michigan 49092 or call (517) 767-4121.

Tekonsha Community Schools
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets:	
Cash and investments	\$ 2,139,366
Due from trust & agency fund	13,591
Due from other governmental units	456,972
Inventories	6,086
Capital assets:	
Cost of capital assets	5,517,232
Less: accumulated depreciation	(3,886,274)
Net capital assets	1,630,958
Total assets	4,246,973
 Deferred Outflows of Resources:	
Pension related	922,520
OPEB related	75,811
Total deferred outflows of resources	998,331
 Liabilities:	
Accounts payable and accrued expenses	378,226
State aid anticipation notes	45,762
Unearned revenue	24,047
Long-term liabilities:	
Due within one year	
Bonds, capital leases and contracts	66,704
Accrued interest	22,860
Due in more than one year	
Bonds, capital leases and contracts	1,830,000
Net pension liability	3,489,279
Net OPEB liability	1,195,422
Total liabilities	7,052,300
 Deferred Inflows of Resources:	
Pension related	328,821
OPEB related	40,414
Total deferred inflows of resources	369,235
 Net Position:	
Net investment in capital assets	1,525,798
Restricted	
Capital projects	1,724,980
Athletic activity	13,591
Unrestricted	(5,440,600)
Total net position	\$ (2,176,231)

Tekonsha Community Schools
Statement of Activities
Year Ended June 30, 2018

<u>Functions/Programs</u>	<u>Program Revenue</u>			<u>Governmental</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
		<u>Services</u>	<u>Grants and</u>	<u>Net (Expenses)</u>
			<u>Contributions</u>	<u>Revenues and</u>
				<u>Change in</u>
				<u>Net Position</u>
Primary Government				
Governmental activities:				
Instruction	\$ 1,688,974	\$ 20,893	\$ 797,879	\$ (870,202)
Support services	1,133,580	18,123	7,101	(1,108,356)
Food service activities	176,099	532	165,099	(10,468)
Interest on long-term debt	19,816	-	-	(19,816)
Capital outlay	55,823	-	-	(55,823)
Depreciation (unallocated)	137,446	-	-	(137,446)
Total governmental activities	<u>\$ 3,211,738</u>	<u>\$ 39,548</u>	<u>\$ 970,079</u>	<u>(2,202,111)</u>
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				318,394
Property taxes, levied for capital projects & debt				64,314
State aid not restricted to specific purposes				1,503,961
Unrestricted investment earnings				2,573
Other				15,716
Total general revenues				<u>1,904,958</u>
Change in Net Position				(297,153)
Net Position - Beginning of Year				<u>(1,879,078)</u>
Net Position - End of Year				<u>\$ (2,176,231)</u>

Tekonsha Community Schools
 Balance Sheet
 Governmental Funds
 June 30, 2018

<u>Assets</u>	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and investments	\$ 182,663	\$ 1,791,544	\$ 165,159	\$ 2,139,366
Taxes receivable, net	752	-	48	800
Due from other funds	119,297	-	4,400	123,697
Receivable from other governments	429,936	-	26,236	456,172
Inventories	-	-	6,086	6,086
Total assets	<u>\$ 732,648</u>	<u>\$ 1,791,544</u>	<u>\$ 201,929</u>	<u>\$ 2,726,121</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 43,415	\$ 45,279	\$ 515	\$ 89,209
Due to other funds	4,400	21,285	84,421	110,106
State aid anticipation notes	45,762	-	-	45,762
Unearned revenue	24,047	-	-	24,047
Salaries payable	279,422	-	-	279,422
Accrued expenditures	9,595	-	-	9,595
Total liabilities	<u>406,641</u>	<u>66,564</u>	<u>84,936</u>	<u>558,141</u>
 Fund Balances:				
Nonspendable:				
Inventories	-	-	6,086	6,086
Restricted	13,591	-	110,907	124,498
Assigned for future year expense	92,241	-	-	92,241
Unassigned	220,175	1,724,980	-	1,945,155
Total fund balances	<u>326,007</u>	<u>1,724,980</u>	<u>116,993</u>	<u>2,167,980</u>
Total liabilities and fund balances	<u>\$ 732,648</u>	<u>\$ 1,791,544</u>	<u>\$ 201,929</u>	<u>\$ 2,726,121</u>

Tekonsha Community Schools

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

Total Fund Balances - Governmental Funds \$ 2,167,980

Amounts reported for governmental activities in the Statement of Net Position are different because:

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

The cost of the capital assets is	\$ 5,517,232	
Accumulated depreciation is	<u>(3,886,274)</u>	1,630,958

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

Bonds payable	(1,870,000)	
Capital leases payable	(13,213)	
State aid payable	(13,491)	
Accrued interest	<u>(22,860)</u>	(1,919,564)

The pension liability and related deferred inflows and outflows are note due and payable in the current period and therefore are not reported in the funds.

Net pension liability	(3,489,279)	
Net OPEB liability	(1,195,422)	
Deferred outflows related to net pension liability	922,520	
Deferred outflows related to net OPEB liability	75,811	
Deferred inflows related to net pension liability	(328,821)	
Deferred inflows related to net OPEB liability	<u>(40,414)</u>	<u>(4,055,605)</u>

Total Net Position - Governmental Activities \$ (2,176,231)

Tekonsha Community Schools
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2018

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmenta I Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Local sources	\$ 378,155	\$ 1,103	\$ 70,200	\$ 449,458
State sources	1,929,821	-	7,521	1,937,342
Federal sources	161,025	-	158,549	319,574
Interdistrict and other	185,634	-	-	185,634
Total revenues	<u>2,654,635</u>	<u>1,103</u>	<u>236,270</u>	<u>2,892,008</u>
Expenditures:				
Instruction	1,634,141	-	-	1,634,141
Support services	1,162,911	-	-	1,162,911
Food service activities	-	-	179,051	179,051
Other	-	39,571	-	39,571
Capital outlay	-	66,565	56,600	123,165
Total expenditures	<u>2,797,052</u>	<u>106,136</u>	<u>235,651</u>	<u>3,138,839</u>
Revenues Over (Under) Expenditures	<u>(142,417)</u>	<u>(105,033)</u>	<u>619</u>	<u>(246,831)</u>
Other Financing Sources (Uses):				
Proceeds from long-term debt, net	-	1,871,864	-	1,871,864
Transfers in	-	-	46,251	46,251
Transfers out	(4,400)	(41,851)	-	(46,251)
Total other financing sources (uses)	<u>(4,400)</u>	<u>1,830,013</u>	<u>46,251</u>	<u>1,871,864</u>
Net Changes in Fund Balance	(146,817)	1,724,980	46,870	1,625,033
Fund Balances - Beginning of Year	<u>472,824</u>	<u>-</u>	<u>70,123</u>	<u>542,947</u>
Fund Balances - End of Year	<u>\$ 326,007</u>	<u>\$ 1,724,980</u>	<u>\$ 116,993</u>	<u>\$ 2,167,980</u>

Tekonsha Community Schools

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds \$ 1,625,033

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

The amount by which depreciation (\$137,446) exceeded capital expenditures (\$127,381) in the current period. (10,065)

Governmental funds report bond proceeds and capital leases as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.

Debt issued for the purchase of assets	\$ (1,870,000)	
Principal payments	32,031	
		(1,837,969)

Governmental funds report claims and judgements when due. In contrast, the Statement of Activities treats such items as liabilities. 13,491

Accrued interest is recorded in the Statement of Activities when incurred; it is not reported in the governmental funds until paid. (21,680)

Compensated absences are reported as expenditures when financial resources are used in the governmental funds 3,250

Governmental funds report the required pension/OPEB contributions for the fiscal year June 30, 2018 as an expenditure. The Statement of Activities reports the fully accrued pension/OPEB expense based upon a September year-end to coincide with the State of Michigan's fiscal year.

Changes in pension/OPEB-related liabilities and deferrals (69,213)

Change in Net Position of Governmental Activities \$ (297,153)

Tekonsha Community Schools
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	<u>Agency Fund</u>
Assets:	
Cash and cash equivalents	\$ 43,105
	<hr/> <hr/>
Liabilities:	
Due to other funds	\$ 13,591
Due to student groups	29,514
	<hr/> <hr/>
	\$ 43,105

Tekonsha Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of Tekonsha Community Schools (the “School District” or “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District’s reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the District does not contain any component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District’s government-wide activities are considered governmental activities.

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

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

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

It is the District’s policy to allocate resource outlays first to restricted net position with the remainder allocated to unrestricted net position.

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

Tekonsha Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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

Property taxes, unrestricted State Aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Expenditure reimbursing grants are recognized when the qualifying expenditures have been incurred, eligibility requirements have been met, and receipt of monies is expected within the current availability period (60 days post year-end). All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

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

Additionally, the government reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Special Revenue Fund maintained by the District is the Food Service Fund.

Debt Funds – Debt Funds are used to record tax, interest, and other revenue for payment of principal and other expenditures thereof on a particular bond issue. The District maintains one debt fund that services the 2005 Refunding Bonds. This fund was closed during the year current year as the bonds were fully paid.

Capital Project Funds – Capital Project Funds are used to record bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The District maintains the Sinking Fund and the Capital Projects Fund. For the capital projects fund, the District has complied with the applicable provisions of Section 1351a of the Revised School Code.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the District in a trustee capacity (trust funds) or as an agent (agency funds). Fiduciary Fund net assets and results of operations are not included in the district-wide statements.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District presently maintains one agency fund, the Student Activities Fund, to record the transactions of student and other groups for school-related purposes. The funds are segregated and held for students, parents, alumni, and others.

Tekonsha Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Revenues, Assets, Liabilities, and Net Position or Equity

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

The State portion of the foundation is provided primarily by a state education property tax millage of six mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

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

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

General Fund – Non-primary residence exemption	18.000
General Fund – Commercial personal property	6.000
Sinking Fund – all taxable values	1.000

Tax abatements provided to property tax payers, if any, were not significant, and thus, no disclosure was deemed required in accordance with GASB Statement No. 77, *Tax Abatement Disclosures*.

Cash and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The District reports its investments in accordance with GASB professional standards. Under these standards certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

Tekonsha Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenues, Assets, Liabilities, and Net Position or Equity (Continued)

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

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.” Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

Inventories and Prepaid Items – Inventories are valued at cost (purchase price) on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. The government defines capital assets as assets with an initial individual cost of \$1,000 or greater for technology items, and \$5,000 or greater for all others, 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 fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure type assets.

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

Buildings and improvements	20-50 years
Buses and other vehicles	10 years
Furniture and equipment	5-20 years

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

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses.

Tekonsha Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenues, Assets, Liabilities, and Net Position or Equity (Continued)

Long-Term Obligations (Continued) – Issuance costs are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources – In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District currently reports deferred outflows of resources related to the net pension liability and the net OPEB liability. The District also reports deferred outflows of resources for pension and OPEB contributions made subsequent to the plan measurement date which will be recognized in the following year.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District currently reports deferred inflows of resources related to its net pension liability and net OPEB liability. These future resources will be amortized and recognized over a time period established by the actuary and relate to differences between actuarial estimates and actual results.

Defined Benefit Pension Plan – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 10 for detailed information.

Postemployment Benefits Other Than Pensions – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Related investments are reported at fair value. See Note 10 for detailed information.

Fund Balance – The District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this guidance, fund balances of governmental funds are categorized according to five defined categories of fund balance. These categories consist of *nonspendable* amounts which are in nonspendable form or are legally or contractually required to be maintained intact; *restricted* amounts that are constrained for specific purposes set by external parties or law; *committed* amounts that are constraints set by the highest decision making authority (the School Board) through adoption of a resolution and may only be removed by the School Board through a rescindment resolution; *assigned* amounts that have an intended purpose but require no formal specific action; and *unassigned* amounts which are the residual of the other categories and have no specific purpose. Current year assigned amounts are to cover expected expenditures over revenues for the subsequent year.

It is the District's policy to generally use fund balance in order according to the hierarchy of fund balance categories, from restricted down to unassigned.

Tekonsha Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenues, Assets, Liabilities, and Net Position or Equity (Continued)

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

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplemental information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any, for the General Fund, are noted in the required supplemental information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end. The District does not consider these amendments to be significant.

Note 3 – Cash and Investments

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and investments	\$ 2,139,366	\$ 43,105	\$ 2,182,471

Tekonsha Community Schools
Notes to Financial Statements

Note 3 – Cash and Investments (Continued)

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

Deposits (checking and savings accounts, certificates of deposits)	\$ 2,026,939
Investments in MILAF pooled investment fund	<u>155,532</u>
Total	<u><u>\$ 2,182,471</u></u>

There are no limitations or restrictions on participant withdrawals for investment pools that are recorded at amortized cost, except for a one-day minimum investment period on MILAF cash management funds and a fourteen-day redemption limitation on MILAF MAX Class funds.

Investment and Deposit Risk – The District’s cash and investments are subject to several types of risk, as noted below.

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. The District requires that financial institutions be evaluated and only those with an acceptable risk level are used for the District’s deposits for custodial credit risk. At year-end, the District’s deposit balance of \$2,042,726 included \$1,792,726 that was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments – Custodial credit risk of investments 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 does not have an investment policy for custodial credit risk.

Interest Rate Risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The District’s investment policy does not restrict investment maturities beyond State law.

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. See Note 1 for a full description of allowed investments. The District’s investment policy does not further limit its investment choices.

The District’s investments under the interlocal agreement (MILAF) in the amount of \$155,532 are regulated by the Urban Cooperation Act. The fair value of the position in the interlocal agreement pools is the same as the value of the pool shares. The interlocal agreement (MILAF) is rated at AAAM according to Standard and Poor’s.

Concentration of Credit Risk – The District’s investment policy does not limit investments with individual issuers.

Foreign Currency Risk – The District does not invest in foreign currency and does not maintain a policy regarding foreign currency risk.

Note 4 – Receivables

Receivables at year-end consisted mainly of State Aid and other grants receivable in the amount of \$456,972.

Tekonsha Community Schools
Notes to Financial Statements

Note 5 – Capital Assets

Capital asset activity of the School District’s governmental activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Year-End Balance</u>
Assets not being depreciated:				
Land	\$ 40,000	\$ -	\$ -	\$ 40,000
Subtotal	<u>40,000</u>	<u>-</u>	<u>-</u>	<u>40,000</u>
Capital assets beings depreciated:				
Buildings and improvements	3,965,752	40,896	-	4,006,648
Buses and other vehicles	281,140	-	-	281,140
Furniture and equipment	1,102,959	86,485	-	1,189,444
Subtotal	<u>5,349,851</u>	<u>127,381</u>	<u>-</u>	<u>5,477,232</u>
Accumulated depreciation:				
Buildings and improvements	2,590,524	96,978	-	2,687,502
Buses and other vehicles	214,965	13,770	-	228,735
Furniture and equipment	943,339	26,698	-	970,037
Subtotal	<u>3,748,828</u>	<u>137,446</u>	<u>-</u>	<u>3,886,274</u>
Net capital assets being depreciated	1,601,023	(10,065)	-	1,590,958
Net capital assets	<u>\$ 1,641,023</u>	<u>\$ (10,065)</u>	<u>\$ -</u>	<u>\$ 1,630,958</u>

The District has determined it is impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

Note 6 – Interfund Receivables, Payables and Transfers

The District reports interfund balances between some of its funds. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the statements of net position/balance sheet for governmental funds. These interfund balances resulted primarily 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.

The composition of interfund balances is as follows:

	<u>Receivable</u>	<u>Payable</u>
Due To/From:		
General fund	\$ 119,297	\$ 4,400
Capital projects fund	-	21,285
Non-major funds	4,400	84,421
Agency fund	-	13,591
	<u>\$ 123,697</u>	<u>\$ 123,697</u>

Tekonsha Community Schools
Notes to Financial Statements

Note 7 – Note Payable

During the year, the District was issued a State Aid Anticipation Note dated August, 2017 maturing July, 2018 in the amount of \$330,000 with an interest rate of 1.27%. Debt was issued to meet short-term cash flow needs. The note was renewed in August, 2018 for a total of \$320,000.

<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2018</u>
\$ 45,461	\$ 320,000	\$ 319,699	\$ 45,762

Note 8 – Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Long-term obligations can be summarized as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Amounts Due</u> <u>Within One</u> <u>Year</u>
Governmental Activities:					
Long-term debt:					
Capital leases	\$ 45,244	\$ -	\$ 32,031	\$ 13,213	\$ 13,213
Michigan Dept. Education	26,982	-	13,491	13,491	13,491
Bonds	-	1,870,000	-	1,870,000	40,000
Compensated absences	3,250	-	3,250	-	-
Total governmental activities	<u>\$ 75,476</u>	<u>\$ 1,870,000</u>	<u>\$ 48,772</u>	<u>\$ 1,896,704</u>	<u>\$ 66,704</u>

Annual debt service requirements to maturity on the above governmental obligations (excluding compensated absences) are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 66,704	\$ 75,098	\$ 141,802
2020	50,000	64,392	114,392
2021	55,000	62,643	117,643
2022	55,000	60,718	115,718
2023	55,000	58,793	113,793
2024-2028	320,000	262,813	582,813
2029-2033	380,000	202,613	582,613
2034-2038	465,000	130,513	595,513
2039-2042	450,000	41,238	491,238
Total	<u>\$ 1,896,704</u>	<u>\$ 958,821</u>	<u>\$ 2,855,525</u>

Tekonsha Community Schools
Notes to Financial Statements

Note 8 – Long-Term Debt (Continued)

General long-term debt consists of:	
\$64,400 - Capital lease purchase due in annual installments of \$13,563 through 2019; including interest at 2.62%	\$ 13,213
Michigan Department of Education (See Note 13)	13,491
\$1,870,000 - Building and site bonds due in annual installments of \$40,000 to \$120,000 through 2042; plus interest at 3.50% to 3.60%	<u>\$ 1,870,000</u>
Total general long-term debt	<u><u>\$ 1,896,704</u></u>

Note 9 – Risk Management

The School District is exposed to various risks of loss-related torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The School District has purchased commercial insurance for other risks of loss, including property and casualty, errors and omissions, fleet, and employee health and accident insurance.

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions

Organization

Pension/OPEB Plan Description – The School District participates in the Michigan Public School Employees' Retirement System ("MPSERS" or "the System"), a State-wide, cost-sharing, multiple-employer defined benefit public employee retirement plan governed by the State of Michigan. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees, and covers substantially all employees of the School District. There are currently approximately 700 participating employers in the System which meets the definition of a qualified pension trust fund under Section 401(a) of the Internal Revenue Code. In addition, the System maintains a health plan ("OPEB") which provides postemployment healthcare benefits to all eligible retirees as an elective option including health, prescription drug, dental, and vision coverage.

The System was originally created under Public Act 136 of 1945, recodified, and currently operates under the provisions of Public Act 300 of 1980, as amended. Section 25 of this Act establishes a governing board and its 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.

Tekonsha Community Schools
Notes to Financial Statements

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Organization (Continued)

Pension/OPEB Plan Description (Continued) –The System is administered by the Office of Retirement Services 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 included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report and are available on the ORS website at www.michigan.gov/orsschools. Information provided in this report includes financial data, actuarial assumptions data, and detailed information about the pension plan and OPEB plan fiduciary net positions.

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 upon 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 or Pension Plus plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former member's right 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.

OPEB 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 OPEB, 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 MPSERS, who earned service credit in the twelve months ending September 3, 2012 or were on an approved professional service 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.

Tekonsha Community Schools
Notes to Financial Statements

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Organization (Continued)

OPEB Benefits Provided (Continued) – 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.

Pension/OPEB Plan Contributions – Public Act 300 of 1980, as amended, requires contributions from both the participating employers and the active plan members. The School District, as a participating employer, is required to contribute amounts necessary to finance the coverage of pension and OPEB benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees (plan members) during the year, with an additional amount paid in to finance a portion of the unfunded accrued liability.

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

Pension Plan Contributions – The System is set up with several different benefit options which are available to plan members (employees) based on date of hire. The table below summarizes pension contribution rates in effect for fiscal year 2018:

<u>Benefit Type</u>	<u>Member Rates</u>	<u>Employer Rates</u>
Basic	0.0% - 4.0%	17.89% - 19.03%
Member Investment Plan (MIP)	3.0% - 7.0%	17.89% - 19.03%
Pension Plus	3.0% - 6.4%	16.61% - 18.40%
Pension Plus 2	6.2%	19.74%
Defined Contribution	0.0%	13.54% - 15.27%

The District's required and actual contributions to the plan for the year ended September 30, 2017 were \$315,819. The District's required and actual pension contributions include an allocation of \$103,043 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial liability (UAAL) stabilization rate for the year ended September 30, 2017.

Tekonsha Community Schools
Notes to Financial Statements

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Organization (Continued)

OPEB Contributions – OPEB contribution rates in effect for the fiscal year 2017 were 3% for members under the Premium Subsidy option with a corresponding 5.91% contribution from employers and 0% for members under the Personal Healthcare Fund with a corresponding 5.69% employer contribution.

Required contributions to the OPEB plan from the District were \$105,097 for the year ended September 30, 2017. The District's required and actual OPEB contributions include an allocation of \$38,344 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial liability (UAAL) stabilization rate for the year ended September 30, 2017.

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

Proportionate Share of School District's Net Pension Liability - At June 30, 2018, the District reported a liability of \$3,489,279 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 30, 2016. The District's proportionate share 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 statutorily required pension contributions from all applicable employers during the measurement period. At September 30, 2017, the District's proportionate share percent was .01346471 percent, an increase of .0004473 percent from its proportion measured as of September 30, 2016.

Pension Expense - For the year ended June 30, 2018, the School District recognized pension expense of \$423,694, exclusive of payments to fund the MPSERS UAAL stabilization rate.

Proportionate Share of School District's Net OPEB Liability - At June 30, 2018, the District reported a liability of \$1,195,422 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 30, 2016. The District's proportionate share 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 statutorily required OPEB contributions from all applicable employers during the measurement period. At September 30, 2017, the District's proportionate share was .01349925 percent.

OPEB Expense - For the year ended June 30, 2018, the School District recognized OPEB expense of \$80,011 exclusive of payments to fund the MPSERS UAAL stabilization rate.

Tekonsha Community Schools
Notes to Financial Statements

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

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

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

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>Pension</u>	<u>OPEB</u>	<u>Pension</u>	<u>OPEB</u>
Difference between expected and actual experience	\$ 30,324	\$ -	\$ 17,121	\$ 12,728
Changes of assumptions	382,278	-	-	-
Net difference between projected and actual earnings on pension/OPEB plan investments	-	-	166,810	27,686
Changes in proportion and differences between district contributions and proportionate share of contributions	194,321	234	5,231	-
District pension/OPEB contributions subsequent to the measurement date	<u>315,597</u>	<u>75,577</u>	<u>139,659</u>	<u>-</u>
Total	<u>\$ 922,520</u>	<u>\$ 75,811</u>	<u>\$ 328,821</u>	<u>\$ 40,414</u>

\$315,597 reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019

\$75,577 reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

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

<u>Year Ended June 30</u>	<u>Pension</u>	<u>OPEB</u>
2019	\$ 125,593	\$ (9,714)
2020	184,801	(9,714)
2021	102,522	(9,714)
2022	4,845	(9,714)
2023	-	(1,324)

Payables to the Pension/OPEB Plan - The District reported an accrued pension/OPEB plan payable at June 30, 2018 of \$39,087. This amount represents employee withholdings and the employer amount payable for wages earned at June 30, 2018 but not yet paid.

Tekonsha Community Schools
Notes to Financial Statements

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions

Actuarial Valuations and Assumptions - Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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.

A summary of actuarial assumptions as of the latest actuarial valuation follows:

Valuation date	September 30, 2016
Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid) as well as OPEB	7.5%
Pension Plus Plan (hybrid)	7.0%
Projected salary increases	3.5 – 12.3%, including wage inflation at 3.5%
Cost of living pension adjustments	3.0% annual non-compounded for MIP members
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension/OPEB valuations beginning with the September 30, 2014 valuation. The total pension/OPEB 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.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years – 4.5188 for pension plan employers and 5.4744 for OPEB plan employers.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Tekonsha Community Schools
Notes to Financial Statements

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

Actuarial Valuations and Assumptions (Continued) - Additional assumptions related to OPEB only include:

- 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 one or more dependents.

Long-Term Expected Rate of Return on Plan Assets – The long-term expected rate of return on pension/OPEB 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/OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension/OPEB plan's target asset allocation as of September 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic equity pools	28.0%	5.6%
Alternative investment pools	18.0%	8.7%
International equity	16.0%	7.2%
Fixed income pools	10.5%	(0.1)%
Real estate and infrastructure pools	10.0%	4.2%
Absolute return pools	15.5%	5.0%
Short-term investment pools	<u>2.0%</u>	(0.9)%
Total	<u>100.0%</u>	

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

Rate of Return – For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension/OPEB plan investments, net of pension/OPEB plan investment expense, was 13.24% and 11.82%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate - A discount rate of 7.5% was used to measure the total pension/OPEB liability (7.0% for the Pension Plus plan, a hybrid plan). This discount rate was based on the long-term expected rate of return on pension/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/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/OPEB plan investments was applied to all periods of projected benefits payments to determine the total pension/OPEB liability.

Tekonsha Community Schools
Notes to Financial Statements

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for the Pension Plus 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 one percentage point lower or one percentage point higher:

1% Decrease (Non-Hybrid/Hybrid)* 6.5%/6.0%	Assumption (Non-Hybrid/Hybrid)* 7.5%/7.0%	1% Increase (Non-Hybrid/Hybrid)* 8.5%/8.0%
<u>\$4,545,370</u>	<u>\$3,489,279</u>	<u>\$2,600,117</u>

*The Basic Plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher:

1% Decrease 6.5%	Current Discount rate 7.5%	1% Increase 8.5%
<u>\$1,400,185</u>	<u>\$1,195,422</u>	<u>\$1,021,643</u>

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate - The following presents the School 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 one percentage point lower or one percentage point higher:

1% Decrease 6.5%	Current Healthcare Cost Trend Rate 7.5%	1% Increase 8.5%
<u>\$1,012,362</u>	<u>\$1,195,422</u>	<u>\$1,403,274</u>

Note 11 – Federal and State Grants

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Tekonsha Community Schools
Notes to Financial Statements

Note 12 - Sinking Fund

The Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Note 13 – Repayment to Michigan Department of Education

During a prior fiscal year, the District underwent an audit related to its fall 2013 pupil count. Based upon this audit and subsequent appeal, the District was required to pay back \$176,051 in State Aid. However, upon final appeal, the amount of recapture was reduced and the State has agreed to recapture the remaining amount of \$40,473 in three equal installments from October State Aid in 2016-2018. There is no interest on these payments.

Note 14 – New Accounting Standard

For the year ended June 30, 2018, the District has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which was promulgated with the purpose of improving accounting and financial reporting for postemployment benefits other than pensions (OPEB). The Statement established standards for measuring and recognizing OPEB liabilities, OPEB expenses, and the related deferred inflows and deferred outflows of resources. The Statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan, similar to the requirements under GASB Statement No. 68 for pension liability reporting. The Statement also addresses standards for OPEB note disclosures and required supplementary information. Previous to the implementation of this Standard, the OPEB liabilities were not recorded in the District's financial statements. The Standard requires this change to be applied retroactively. As a result of this implementation, which was effective July 1, 2017, the beginning net position has been adjusted to reflect the beginning of year balances of the net OPEB liability and related deferrals of inflows and outflows of resources. This restatement of net position was a decrease of beginning net position of \$1,211,290 to a restated balance of \$(1,879,078).

Note 15 – Upcoming Accounting and Reporting Changes

GASB has issued Statement No. 84, *Fiduciary Activities*, to improve accounting and financial reporting over fiduciary activities. The Statement establishes criteria for identifying fiduciary activities and whether these identified fiduciary activities should be reported in a separate fiduciary fund in the basic financial statements. The Statement aims to enhance consistency and comparability for assessing government accountability and stewardship over fiduciary activities. Statement No. 84 will be effective for the District's fiscal year ending June 30, 2020.

Statement No. 87, *Leases*, was issued by the Governmental Accounting Standards Board to increase the usefulness of government financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. The Statement also addresses standards for note disclosures to include information regarding the timing, significance, and purpose of a government's leasing arrangements. Statement No. 87 will be effective for the District's fiscal year ending June 30, 2021.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, was issued to improve noted disclosures related to debt, including clarifying which liabilities should be included when governments disclose information regarding debt. The Statement requires the disclosure of essential information related to debt including unused lines of credit, collateral pledged as debt security, and other significant terms. Statement No. 88 will be effective for the District's fiscal year ending June 30, 2019.

Required Supplemental Information

Tekonsha Community Schools
 Budgetary Comparison Schedule - General Fund
 Year Ended June 30, 2018

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Local sources	\$ 358,272	\$ 381,207	\$ 378,155
State sources	1,981,916	1,949,613	1,929,821
Federal sources	136,071	195,697	161,025
Interdistrict and other	198,053	180,604	185,634
Total revenues	<u>2,674,312</u>	<u>2,707,121</u>	<u>2,654,635</u>
Expenditures:			
Instruction:			
Basic programs	1,143,781	1,170,115	1,185,971
Added needs	393,658	481,696	448,170
Support services:			
Pupil	180,099	144,283	143,747
Instructional staff	32,437	17,845	13,212
General administration	197,418	203,373	204,016
School administration	160,061	133,474	133,787
Business	80,127	82,925	86,189
Operation & maintenance	212,466	270,242	278,556
Pupil transportation	148,183	131,719	129,402
Central services	58,550	64,635	65,129
Athletic activities	107,697	113,984	108,873
Total expenditures	<u>2,714,477</u>	<u>2,814,291</u>	<u>2,797,052</u>
Revenues Over (Under) Expenditures	<u>(40,165)</u>	<u>(107,170)</u>	<u>(142,417)</u>
Other Financing Sources (Uses):			
Transfers out	<u>(10,000)</u>	<u>(10,000)</u>	<u>(4,400)</u>
Total other financing sources (uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>(4,400)</u>
Net Changes in Fund Balances	(50,165)	(117,170)	(146,817)
Fund Balances - Beginning of Year	<u>472,824</u>	<u>472,824</u>	<u>472,824</u>
Fund Balances - End of Year	<u>\$ 422,659</u>	<u>\$ 355,654</u>	<u>\$ 326,007</u>

Tekonsha Community Schools

Schedule of the District's Proportionate Share of the Net Pension Liability of the MPSERS Plan
Last Four Fiscal Years (Amounts Determined Each Year as of September 30)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of net pension liability (%)	<u>0.01346471%</u>	<u>0.01301745%</u>	<u>0.01219488%</u>	<u>0.01223%</u>
District's proportionate share of net pension liability	<u>\$ 3,489,279</u>	<u>\$ 3,247,747</u>	<u>\$ 2,978,603</u>	<u>\$ 3,247,747</u>
District's covered-employee payroll	<u>\$ 1,135,535</u>	<u>\$ 1,129,988</u>	<u>\$ 1,108,418</u>	<u>\$ 1,061,748</u>
District's proportionate share of net pension liability as a percentage of its covered-employee payroll	<u>307.28%</u>	<u>287.41%</u>	<u>268.73%</u>	<u>305.89%</u>
Plan fiduciary net position as a percentage of total pension liability	<u>64.21%</u>	<u>63.27%</u>	<u>63.17%</u>	<u>66.20%</u>

Tekonsha Community Schools

Schedule of the District's Pension Contributions to the MPSERS Plan
Last Four Fiscal Years (Amounts Determined Each Year as of June 30)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required pension contributions	\$ 315,819	\$ 319,463	\$ 294,937	\$ 220,438
Pension contributions in relation to statutorily required contributions	<u>315,819</u>	<u>319,463</u>	<u>294,937</u>	<u>220,438</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	<u>\$ 1,137,920</u>	<u>\$ 1,122,082</u>	<u>\$ 1,108,418</u>	<u>\$ 1,022,930</u>
Pension contributions as a percentage of covered payroll	<u>27.75%</u>	<u>28.47%</u>	<u>26.61%</u>	<u>21.55%</u>

Tekonsha Community Schools
Notes to Required Supplementary Information Pension Schedules
Year Ended June 30, 2018

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

Changes of Assumptions: The actuarial assumption regarding the investment rate of return for MIP and Basic plans changed from 8.0% to 7.5% effective for the State's fiscal year ended September 30, 2017.

Tekonsha Community Schools

Schedule of the District's Proportionate Share of the Net OPEB Liability of the MPSERS Plan
Last Fiscal Year (Amounts Determined Each Year as of September 30)

	<u>2017</u>
District's proportion of net OPEB liability (%)	<u>.0001349925</u>
District's proportionate share of net OPEB liability	<u>\$ 1,195,422</u>
District's covered-employee payroll	<u>\$ 1,135,535</u>
District's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	<u>105.27%</u>
Plan fiduciary net position as a percentage of total OPEB liability	<u>36.39%</u>

Tekonsha Community Schools
 Schedule of the District's OPEB Contributions to the MPSERS Plan
 Fiscal Year (Amounts Determined Each Year as of June 30)

	2018
Statutorily required OPEB contributions	\$ 105,097
OPEB contributions in relation to statutorily required contributions	105,097
Contribution deficiency (excess)	\$ -
District's covered payroll	\$ 1,137,920
OPEB contributions as a percentage of covered payroll	9.24%

Tekonsha Community Schools
Notes to Required Supplementary Information OPEB Schedules
Year Ended June 30, 2018

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

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

Other Supplemental Information

Tekonsha Community Schools
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

	Food Service Fund	Sinking Fund	Debt Service Fund	Total Nonmajor Governmental Funds
<u>Assets</u>				
Cash and investments	\$ 42,007	\$ 81,296	\$ 41,856	\$ 165,159
Taxes receivable, net	-	48	-	48
Due from other funds	4,400	-	-	4,400
Receivable from other governments	26,236	-	-	26,236
Inventories	6,086	-	-	6,086
Total assets	\$ 78,729	\$ 81,344	\$ 41,856	\$ 201,929
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 442	\$ 73	\$ -	\$ 515
Due to other funds	78,271	6,150	-	84,421
Total liabilities	78,713	6,223	-	84,936
 Fund Balances:				
Nonspendable:				
Inventories	6,086	-	-	6,086
Restricted	(6,070)	75,121	41,856	110,907
Total fund balances	16	75,121	41,856	116,993
Total liabilities and fund balances	\$ 78,729	\$ 81,344	\$ 41,856	\$ 201,929

Tekonsha Community Schools
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2018

	<u>Food Service Fund</u>	<u>Sinking Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues:				
Local sources	\$ 6,746	\$ 63,449	\$ 5	\$ 70,200
State sources	6,550	971	-	7,521
Federal sources	158,549	-	-	158,549
Total revenues	<u>171,845</u>	<u>64,420</u>	<u>5</u>	<u>236,270</u>
Expenditures:				
Food service activities	179,051	-	-	179,051
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Other	-	-	-	-
Capital outlay	-	56,600	-	56,600
Total expenditures	<u>179,051</u>	<u>56,600</u>	<u>-</u>	<u>235,651</u>
Revenues Over (Under) Expenditures	<u>(7,206)</u>	<u>7,820</u>	<u>5</u>	<u>619</u>
Other Financing Sources (Uses):				
Transfers in	4,400	-	41,851	46,251
Transfers out	-	-	-	-
Net other financing sources (uses)	<u>4,400</u>	<u>-</u>	<u>41,851</u>	<u>46,251</u>
Net Changes in Fund Balance	(2,806)	7,820	41,856	46,870
Fund Balances - Beginning of Year	<u>2,822</u>	<u>67,301</u>	<u>-</u>	<u>70,123</u>
Fund Balances - End of Year	<u>\$ 16</u>	<u>\$ 75,121</u>	<u>\$ 41,856</u>	<u>\$ 116,993</u>



WILLIS & JURASEK

CPAS AND CONSULTANTS

**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***

Board of Education
Tekonsha Community Schools
Tekonsha, 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 Tekonsha Community Schools as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 27, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit, 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.

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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement 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. We consider the deficiency described as 2018-001 to be a material weakness.

Board of Education
Tekonsha Community Schools
Tekonsha, Michigan

2018-001 – Budget Overage

Criteria or Specific Requirement: It is management's responsibility to ensure that the District spends only within the budgeted amount as approved by the Board of Education in accordance with the budget act.

Condition: The District's expenditures exceeded its budget for several functions as shown on the budget to actual comparison presented on page 25 of the audit report.

Recommendation: We recommend the District review the procedures related to budgeting to ensure the budget appropriately encompasses all expected expenditures.

Views of Responsible Officials: We have reviewed our procedures and have implemented steps to ensure our budgets adequately account for anticipated expenditures..

The District's Response to Findings

Tekonsha Community Schools' response to the findings identified in our audit and referred to as 2018-001 is described previously and in the corrective action plan. 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.

Compliance and Other Matters

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

Purpose of this Report

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

Willis & Jarasek, P.C.

Willis & Jarasek, P.C.

September 27, 2018



WILLIS & JURASEK

CPAS AND CONSULTANTS

September 27, 2018

To the Board of Education
Tekonsha Community Schools
Tekonsha, Michigan

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

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Tekonsha Community Schools are described in Note 1 to the financial statements. As described in Note 12, the School District, in accordance with Governmental Accounting Standards Board (GASB) standards, implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management has estimated the value of capitalized assets and the related accumulated depreciation. The bulk of the capitalized costs is based upon an asset appraisal done in a prior year. Related depreciation is based upon estimated usage using estimated lives and methods to formulate net book value. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statements contain estimates for the net pension liability and the net OPEB liability and related deferred inflows and deferred outflows of resources. This information has been provided by ORS to all school districts participating in the MPSERS pension system. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements of any significance. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as per the auditors' report.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, Budgetary Comparison Schedule, and schedules related to the net pension liability and the net OPEB liability, and the related notes which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Recommendations

We recommend continuing to give consideration to internal controls over fiduciary accounts and to prepare for implementation of GASB Statement No. 84, *Fiduciary Activities*.

Restriction on Use

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

Very truly yours,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.