

**Leland Public School**

FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2019

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# Management's Discussion and Analysis

For the year ended June 30, 2019

The discussion and analysis of the Leland Public School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2019. Please read this analysis in conjunction with the District's financial statements, which immediately follow this section.

## DESCRIPTION OF REPORTING ENTITY AND SERVICES PROVIDED

Leland School District is one of the few remaining one building schools in Michigan. The District is located in Leelanau County and serves students in grades Kindergarten through 12<sup>th</sup> grade. In addition to a full college preparatory curriculum offered on the Leland campus, Leland staff members teach non-core subjects such as fine arts, foreign language, and technology at the nearby parochial school. Students attending the District are afforded individualized attention due to small class sizes. Educators in the District are committed to the philosophy that all children are capable of learning if they have the appropriately specified learning tasks and a suitable amount of time commensurate with their individual learning rates. Leland Public School District offers a core academic curriculum that meets and/or exceeds State guidelines at all levels. Leland Public School is also an International Baccalaureate World School that provides educational opportunities to develop both disciplinary and interdisciplinary understanding that meets rigorous standards set by institutions of higher learning around the world. The IB programs offer curriculum frameworks and courses that are broad, balanced, conceptual and connected globally. The population for the 2018-2019 school year was 562 pupils with the inclusion of part-time parochial students.

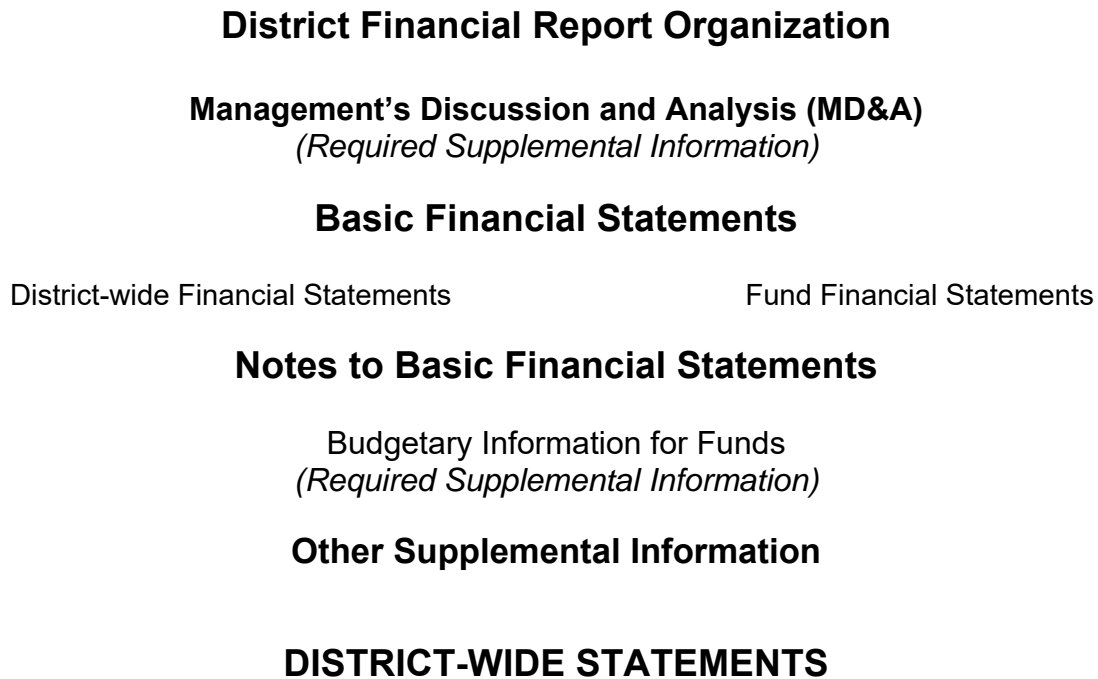
## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three sections presented in the following order: management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include several kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide comprehensive *short-term* and *long-term* financial information about the District as a whole.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about assets held by the District in a *trustee* or *agent* capacity.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data and supporting documentation. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged.

**Figure A-1**



The district-wide statements provide comprehensive information about the entire District using the accrual basis of accounting which is similar to the method used by private-sector companies. The statement of net position includes all of the District's assets, deferred outflows, and liabilities and the difference between them, which is net position. The statement of activities accounts for all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net position and statement of activities report the governmental activities for the District, which encompass all of the District's services, including instruction and supporting services. Unrestricted State Aid and property taxes finance most of these activities.

The two district-wide statements report the District's *net position* and how they have changed. Examining net position is one way to measure the District's financial health or *position*. Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or declining. The relationship between revenues and expenses is the District's operating results, or in other terms, whether the District had a profit or a loss at year end. However, the District's mission is not simply to generate profits, as may be the case for a commercial entity.

## FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds. Each major fund is presented in a separate column. Non-major funds are aggregated and displayed in a single column. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The District has two kinds of funds:

### ***Governmental funds:***

All of the District's basic services are included in governmental funds. Governmental fund reporting generally focuses on how dollars flow in and out of the funds and the balances left at year-end. These balances are reported using the modified accrual basis of accounting. Revenues are recognized when they are measurable and available. Expenditures are recorded when the related fund liability is incurred. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent 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 are presented in a reconciliation displayed further in our documentation. The District's major governmental funds are the general fund and the 2018 capital projects fund.

### ***Fiduciary Funds:***

The District is the Trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and only by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations. For example, the Student Activities Account is accounted for as a fiduciary fund.

## The District as a Whole

Recall that the statement of net position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2019:

**TABLE 1**

	Governmental Activities		
	June 30, 2018	June 30, 2019	% Change
<b>Assets</b>			
Current and other assets	\$ 11,801,786	\$ 10,292,156	-12.79%
Capital assets	7,557,576	8,677,856	14.82%
Total assets	19,359,362	18,970,012	-2.01%
Deferred Outflow of Resources	2,222,491	4,368,436	96.56%
Total assets and deferred outflows	\$ 21,581,853	\$ 23,338,448	8.14%
<b>Liabilities</b>			
Current liabilities	\$ 1,984,545	\$ 2,081,363	4.88%
Long-term liabilities	11,810,070	10,446,507	-11.55%
Net pension obligation	9,747,368	11,619,826	19.21%
Net OPEB obligation	3,332,484	3,147,927	-5.54%
Total liabilities	26,874,467	27,295,623	1.57%
Deferred Inflows of Resources	651,192	1,635,266	151.12%
Net Assets Invested in			
Property and Equipment –			
Net of related debt	(5,346,900)	(2,978,355)	-44.30%
Restricted for:			
Public improvements	10,159,916	8,840,214	-12.99%
Debt service	44,588	122,689	175.16%
Food service	25,697	59,752	132.53%
Unrestricted (deficit)	(10,827,107)	(11,636,741)	7.48%
Total net position	\$ (5,943,806)	(5,592,441)	-5.91%
Total Liabilities and net position	\$ 21,581,853	\$ 23,338,448	8.14%

The above analysis focuses on the net position (see Table 1). The District's net position was (\$5,943,806) at June 30, 2018 and (5,592,441) at June 30, 2019. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use net position for day-to-day operations.

The results of this year's operations for the District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal year 2019. Revenue and expense for fiscal year 2018 is also shown for comparison purposes.

**TABLE 2**

	Governmental Activities		
	June 30, 2018	June 30, 2019	% Change
<b>Program Revenues:</b>			
Charges for services	\$ 151,632	\$ 223,287	47.26%
Operating grants and contributions	1,001,917	1,001,011	-0.09%
General revenue			
Property taxes			
Levied for general purpose	3,686,380	3,883,247	5.34%
Levied for debt service	1,078,651	1,704,398	58.01%
Levied for sinking fund	168,324	177,003	5.16%
State school aid - unrestricted	684,437	756,966	10.60%
Unrestricted Federal aid	674,883	665,637	-1.37%
Grants and contributions- unrestricted	230,382	251,002	8.95%
Other	123,378	324,149	162.73%
	<u>7,799,984</u>	<u>8,986,700</u>	15.21%
<b>Functions/Program Expenses</b>			
Instruction	4,116,017	4,568,088	10.98%
Support services	2,720,856	2,749,105	1.04%
Food service	236,676	327,708	38.46%
Other transactions	360,520	85,618	-76.25%
Interest on long-term debt	186,621	409,888	119.64%
Depreciation (unallocated)	441,001	494,928	12.23%
	<u>8,061,691</u>	<u>8,635,335</u>	7.12%
Increase in Net Position	<u>-261,707</u>	<u>351,365</u>	234.26%
Net position, beginning of year, <i>as restated</i>	<u>(5,682,099)</u>	<u>(5,943,806)</u>	4.61%
<b>Net position, end of the year</b>	<u>\$ (5,943,806)</u>	<u>\$ (5,592,441)</u>	-5.91%

As reported in the statement of activities, the cost of all of our governmental activities this year was \$8,635,335. Certain activities were partially funded by those who benefited from the programs, such as food service and athletics, (\$223,287) or by other grants and contributions (\$1,001,011). We paid for the remaining "public benefit" portion of our governmental activities with \$5,764,648 in taxes, \$756,966 in

State Aid, \$665,637 in Federal Aid and with our other revenues including interest and general entitlements.

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

## **The District's Funds**

As noted earlier, the District uses fund accounting to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District's overall financial health. The District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. The General Fund is the main operating fund of the District. All other funds would be used to account for the proceeds from specific revenue sources that are legally restricted to certain types of expenditures.

As the District completed this year, the general fund reported a fund balance of \$555,644, which is a decrease of \$303,902 from the prior year.

## **Fund Budgetary Highlights**

Over the course of the year, the District revises its budget as it attempts to deal with numerous changes in expected revenues and expenditures. The Uniform Budget Act of the State of Michigan requires that the Board of Education adopt a budget for the upcoming school year prior to July 1, which is the start of the new fiscal year. The District revised its budget three times during the fiscal year. Under normal circumstances, the District adjusts its budget to reflect a wide variety of Federal and State funding sources, many of which are not finalized until well after the District's original budget is required to be adopted. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations.

A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Major changes to the general fund budget were as follows:

- Hired an additional ½ time special education teacher
- Additional hours required by classroom and office aides
- Addition professional development for teachers
- More state required online class offerings



## **Capital Asset and Debt Administration**

### **Capital Assets**

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2019, \$494,928 was recorded for depreciation expense. The net effect of the new capital assets, the write off of the assets disposed of during the year, and the current year's depreciation is a net increase in capital assets in the amount of \$1,120,280 for the fiscal year ended June 30, 2019.

### **Debt**

At June 30, 2019, the District had \$11,814,013 debt owing. Of that amount, \$9,195,000 is due to bonds sold for the continuing multi-year school building construction project.

### **Economic Factors and Next Year's Budgets and Rates**

At the time these financial statements were prepared and audited, the District was aware of a number of circumstances that could significantly affect the financial health of Leland Public School District.

- Inadequate state funding combined with rising pension and health insurance costs make it extremely difficult to provide appropriate salaries and benefits to district staff while also paying all other program and overhead costs. Both the teacher and support staff contracts are currently lapsed and in negotiations.

### **Contacting the School District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Sandy Thomas, Business Manager, at Leland Public School District, P.O. Box 498, Leland, MI 49654, Telephone (231) 256-9857, Fax (231) 256-9844.



DENNIS, GARTLAND & NIERGARTH

*Celebrating 45 Years of Service*

Certified Public Accountants  
Business Advisors

Thomas E. Gartland, Retired  
Brad P. Niergarth, CPA  
James G. Shumate, CPA  
Robert C. Thompson, CPA  
Michael D. Shaw, Retired  
Mary F. Krantz, CPA  
Shelly K. Bedford, CPA  
Heidi M. Wendel, CPA  
Shelly A. Ashmore, CPA  
James M. Taylor, CPA  
Trina B. Edwards, CPA

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education  
Leland Public School

### **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 the **Leland Public School** (the "School District") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Leland Public School as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *vii*, budgetary comparison information on page 38, Pension contribution schedule on page 39, and OPEB contribution schedule on page 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining non-major fund financial statements and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

We previously audited the School District's financial statements for the years ended June 30, 2016, 2017 and 2018, and our issued reports thereon, dated October 17, 2016, October 13, 2017 and October 24, 2018, respectively, expressed unmodified opinions on those audited financial statements.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2019, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering the School District's internal control over financial reporting and compliance.

*Dennis, Gartland & Niergarth*

October 18, 2019

**Leland Public School**  
**STATEMENT OF NET POSITION**  
June 30, 2019

	<u>Governmental Activities</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 9,937,110
Due from other governments	337,281
Prepays	15,227
Inventory	<u>2,538</u>
Total current assets	10,292,156
Capital assets, net of accumulated depreciation	<u>8,677,856</u>
Total assets	18,970,012
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred loss on refunding	36,363
Pension obligation	3,646,662
OPEB obligation	<u>685,411</u>
Total assets and deferred outflows of resources	<u><u>\$ 23,338,448</u></u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable and accrued expenses	\$ 705,381
Unearned revenue	8,476
Current portion of long-term liabilities	<u>1,367,506</u>
Total current liabilities	2,081,363
Non-current portion of long-term obligations	10,446,507
Net pension obligation	11,619,826
Net OPEB obligation	<u>3,147,927</u>
Total liabilities	<u>27,295,623</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension obligation	918,612
OPEB obligation	<u>716,654</u>
Total deferred inflows of resources	<u>1,635,266</u>
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	(2,978,355)
Restricted for	
Food service	59,752
Debt service	122,689
Capital projects	8,840,214
Unrestricted (deficit)	<u>(11,636,741)</u>
Total net position	<u>(5,592,441)</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 23,338,448</u></u>

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

**Leland Public School**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2019

Functions/Program	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 4,568,088	\$ -	\$ 856,262	\$ (3,711,826)
Supporting services	2,749,105	16,304	-	(2,732,801)
Food service	327,708	206,983	144,749	24,024
Other	85,618	-	-	(85,618)
Interest on long-term debt	409,888	-	-	(409,888)
Depreciation-unallocated	494,928	-	-	(494,928)
Total governmental activities	<u>\$ 8,635,335</u>	<u>\$ 223,287</u>	<u>\$ 1,001,011</u>	<u>(7,411,037)</u>
General purpose revenues				
Property taxes				
Levied for general purposes				3,883,247
Levied for debt service				1,704,398
Levied for Sinking Fund				177,003
State school aid - unrestricted				756,966
Unrestricted Federal aid				665,637
Grants and contributions - unrestricted				251,002
Investment and other				<u>324,149</u>
Total general purpose revenues				<u>7,762,402</u>
Change in net position				351,365
Net position, beginning of year				<u>(5,943,806)</u>
Net position, end of year				<u><u>\$ (5,592,441)</u></u>

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

# Leland Public School

## BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2019

	General Fund	2018 Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 679,366	\$ 8,458,941	\$ 798,803	\$ 9,937,110
Due from other governments	337,281	-	-	337,281
Prepays	15,227	-	-	15,227
Due from other funds	84,364	-	3,300	87,664
Inventory	-	-	2,538	2,538
	<u>1,116,238</u>	<u>8,458,941</u>	<u>804,641</u>	<u>10,379,820</u>
Total assets	<u>\$ 1,116,238</u>	<u>\$ 8,458,941</u>	<u>\$ 804,641</u>	<u>\$ 10,379,820</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable and accrued expenditures	\$ 557,294	\$ 76,605	\$ 795	\$ 634,694
Unearned revenue	-	-	8,476	8,476
Due to other funds	3,300	-	84,364	87,664
	<u>560,594</u>	<u>76,605</u>	<u>93,635</u>	<u>730,834</u>
Total liabilities	<u>560,594</u>	<u>76,605</u>	<u>93,635</u>	<u>730,834</u>
<b>FUND BALANCES</b>				
Nonspendable	15,227	-	2,538	17,765
Restricted				
Food service	-	-	57,214	57,214
Debt retirement	-	-	193,376	193,376
Capital projects	-	8,382,336	457,878	8,840,214
Committed				
Subsequent year expenditures	38,614	-	-	38,614
Assigned				
Employee leave liability	121,439	-	-	121,439
Unassigned	380,364	-	-	380,364
	<u>555,644</u>	<u>8,382,336</u>	<u>711,006</u>	<u>9,648,986</u>
Total fund balances	<u>555,644</u>	<u>8,382,336</u>	<u>711,006</u>	<u>9,648,986</u>
Total liabilities and fund balances	<u>\$ 1,116,238</u>	<u>\$ 8,458,941</u>	<u>\$ 804,641</u>	

### Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Position

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$15,454,832 and the accumulated depreciation is \$(6,776,976). 8,677,856

Deferred outflows of resources are not a financial resource and, therefore, are not reported as an asset in governmental funds. Deferred outflows of resources at year end consisted of:

Pension obligation	3,646,662
OPEB obligation	685,411
Deferred loss on refunding	36,363

Long-term liabilities and related deferred outflows of resources including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	\$ 11,170,000	
Accrued interest on bonds	70,687	
Unamortized bond premium	522,574	
Accumulated leave liability	121,439	
Net pension obligation	11,619,826	
Net OPEB obligation	<u>3,147,927</u>	(26,652,453)

Deferred inflows of resources of \$(918,612) related to the pension obligation and \$(716,654) related to the OPEB obligation are not due and payable in the current period and, therefore, are not reported as a liability in the governmental funds.

(1,635,266)

Total net position - governmental activities

\$ (5,592,441)

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

# Leland Public School

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2019

	General Fund	2018 Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 3,883,247	\$ -	\$ 1,881,401	\$ 5,764,648
Interest	46,154	213,290	33,633	293,077
State revenues	1,510,440	-	25,197	1,535,637
Federal revenues	768,425	-	119,552	887,977
Other	267,306	-	224,055	491,361
	<u>6,475,572</u>	<u>213,290</u>	<u>2,283,838</u>	<u>8,972,700</u>
Total revenues				
Expenditures				
Current				
Instruction	4,238,410	-	-	4,238,410
Supporting services	2,481,881	-	-	2,481,881
Food Service	-	-	327,708	327,708
Other	48,059	34,082	1,851	83,992
Debt Service				
Principal	-	-	1,235,000	1,235,000
Interest	-	-	407,041	407,041
Other	-	-	1,626	1,626
Capital outlay	1,124	1,506,086	212,433	1,719,643
	<u>6,769,474</u>	<u>1,540,168</u>	<u>2,185,659</u>	<u>10,495,301</u>
Total expenditures				
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(293,902)</u>	<u>(1,326,878)</u>	<u>98,179</u>	<u>(1,522,601)</u>
Other financing sources (uses)				
Operating transfers in	-	-	10,000	10,000
Operating transfers out	(10,000)	-	-	(10,000)
Proceeds from sale of fixed asset	-	14,000	-	14,000
	<u>-</u>	<u>14,000</u>	<u>-</u>	<u>14,000</u>
Total other financing sources (uses)	<u>(10,000)</u>	<u>14,000</u>	<u>10,000</u>	<u>14,000</u>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	<u>(303,902)</u>	<u>(1,312,878)</u>	<u>108,179</u>	<u>(1,508,601)</u>
Fund balance, beginning of year	<u>859,546</u>	<u>9,695,214</u>	<u>602,827</u>	<u>11,157,587</u>
Fund balance, end of year	<u><u>\$ 555,644</u></u>	<u><u>\$ 8,382,336</u></u>	<u><u>\$ 711,006</u></u>	<u><u>\$ 9,648,986</u></u>

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



## Leland Public School

### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ (1,508,601)</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays \$ 1,615,208	
Depreciation expense <u>(494,928)</u>	1,120,280

Change in deferred outflows of resources for pension obligation of \$1,637,681 and OPEB obligation of \$532,505.	2,170,186
--	-----------

In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time used was less than the amounts earned by \$3,943.	(3,943)
--	---------

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.	1,235,000
---	-----------

Net amortization of bond refunding loss and bond premium.	13,265
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Increase in net pension obligation.	(1,872,458)
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Decrease in OPEB obligation.	184,557
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Change in deferred inflows of resources for pension obligation of \$(380,594) and OPEB obligation of \$(603,480).	(984,074)
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The interest reported in the statement of activities is the net result of the increase in accrued interest on bonds payable.	<u>(2,847)</u>
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<b>Changes in Net Position of Governmental Activities</b>	<b><u><u>\$ 351,365</u></u></b>
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# Leland Public School

## STATEMENT OF FIDUCIARY NET POSITION

June 30, 2019

	Private Purpose Trust Funds	Agency Funds	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 9,006	\$ 117,649	\$ 126,655
Investments	<u>57,724</u>	<u>-</u>	<u>57,724</u>
Total assets	<u>\$ 66,730</u>	<u>\$ 117,649</u>	<u>\$ 184,379</u>
<b>LIABILITIES AND NET POSITION</b>			
<b>LIABILITIES</b>			
Due to student groups	\$ -	\$ 117,649	\$ 117,649
<b>NET POSITION</b>			
Held in trust for scholarships	<u>66,730</u>	<u>-</u>	<u>66,730</u>
Total liabilities and net position	<u>\$ 66,730</u>	<u>\$ 117,649</u>	<u>\$ 184,379</u>

**Leland Public School**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
Year Ended June 30, 2019

	<u>Private Purpose Trust Funds</u>
<b>ADDITIONS</b>	
Contributions	\$ 42,979
Interest	<u>315</u>
Total additions	43,294
<b>DEDUCTIONS</b>	
Scholarships awarded	<u>56,454</u>
<b>Change in net position</b>	(13,160)
Net position, beginning of year	<u>79,890</u>
Net position, end of year	<u><u>\$ 66,730</u></u>

# **Leland Public School**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Introduction***

Leland Public School (the "School District") is a Michigan public school district consisting of one K-12 building. The School District also provides staff for St. Mary's School of Lake Leelanau. The School District primarily serves the Leland community. As of June 30, 2019, the School District employs 38 professional staff and 32 non-professional staff, and has 562 students enrolled within its School District.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The School District is a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2019.

#### ***Financial Reporting Entity***

Leland Public School District is a special purpose government and considered to be a primary government because it has a separately elected governing body, is legally separate and is fiscally independent of other state and local governments. The financial reporting entity of Leland Public School District includes the School District as the primary government and its component units; i.e., legally separate organizations for which the primary government is financially accountable and any other organizations which management has determined, based on the nature of significance of their relationship with the School District, must be included to prevent the School District's financial statements from being misleading. Based on criteria established in Governmental Accounting Standards Board ("GASB") Statement No. 14, as amended, management has not identified any component units. Student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

#### ***District-Wide and Fund Financial Statements***

##### ***District-Wide Financial Statements***

The statement of net position and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and School District general revenues.

## NOTES TO FINANCIAL STATEMENTS - Continued

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

### *Fund Financial Statements*

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

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

The financial statements of the School District are prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements.

The district-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available, if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

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

## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Fund Types and Major Funds***

#### *Activities in Major Funds*

The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those accounted for in another fund.

The 2018 Capital Project Fund is used to account for financial resources (bond proceeds) to be used for the acquisition of equipment or construction of capital assets.

#### *Other Governmental Funds*

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes. The Food Service Fund is a Special Revenue Fund that segregates, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of this fund.

Debt Retirement Funds are used to account for the accumulation of resources (property taxes), and the payment of, bond principal, interest and related costs. The School District maintains the 2013 - 2014 Debt Retirement Fund, the 2016 Debt Retirement Fund, and the 2018 Debt Retirement Fund.

The Infrastructure Fund is a capital project fund and is used to account for a sinking fund tax levy to be used for construction or repair of various School District properties. For this fund, the School District has complied with the applicable provisions of 1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

The 2016 Capital Project Fund is used to account for financial resources (bond proceeds) to be used for the acquisition of equipment, technology and buses.

#### *Fiduciary Funds*

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net position and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Private purpose trust funds are used to administer scholarships for the benefit of private individuals and organizations.

### ***Cash and Cash Equivalents***

The School District's reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

### ***Inventories***

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost, which is recorded as an expenditure at the time individual inventory items are used.

## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Capital Assets***

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 3 to 50 years. The School District generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives for depreciable assets are as follows:

Buildings	50 years
Improvements, other than buildings	5 years
Furniture and equipment	3-20 years
Buses and vehicles	5-7 years

### ***Long-Term Debt and Bond Discounts/Premiums***

In the district-wide financial statements, outstanding debt is reported as a liability. Bond discounts or premiums are amortized over the terms of the respective bonds using a method that approximates the interest method. 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 period in which the bonds were issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

### ***Fund Balance***

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors or contributors, or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the School Board through approval of resolutions. Assigned fund balance is a limitation imposed by the Superintendent and/or Business Manager as a designee of the School Board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed or assigned to those purposes.

## NOTES TO FINANCIAL STATEMENTS - Continued

When both restricted and unrestricted fund balances are available for use, it is the School District's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts, when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

### ***Deferred Outflows and Inflows of Resources***

In addition to assets and liabilities, the statement of financial position includes elements for deferred outflows of resources and deferred inflows of resources. The separate financial statement elements, deferred outflows and inflows of resources, represent a consumption/addition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) or inflows of resources (revenue) until then. The School District's items that qualify for reporting in this category are the deferred loss on debt refunding reported in the government-wide statement of net position and items related to the pension and OPEB obligations. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. See Note I and Note J for details of deferred outflows and inflows related to the pension and OPEB obligations, respectively.

### ***Program Revenues***

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Title I, Title VII, At-Risk and School Lunch Program, which are reported as operating grants and contributions.

### ***Allocation of Expenses***

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

### ***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 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.



## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Post-Employment Benefits Other than Pensions (OPEB)***

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 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.

### ***Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

## **NOTE B - BUDGETARY POLICY AND PRACTICE**

The General Fund budget is adopted on a budgetary basis which does not consider other financing sources and related capital outlay.

### ***Excess of Expenditures over Appropriations in Budgeted Funds***

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2019, the School District was not in compliance with the Act as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Supporting services	\$ 2,503,601	\$ 2,531,064	\$ 27,463

## **NOTE C - CASH AND INVESTMENTS**

At June 30, 2019, the School District's cash and investments include the following:

Bank deposits and cash on hand	\$ 418,580
Certificates of deposit	57,724
Investment pools ("MILAF")	<u>9,645,185</u>
	<u>\$10,121,489</u>

## NOTES TO FINANCIAL STATEMENTS - Continued

### *Custodial Credit Risk - Deposits*

In the event of bank failure, the School District's deposits may not be returned to it. As of June 30, 2019, \$15,224 of the School District's bank balance was exposed to custodial credit risk because it is uninsured and uncollateralized.

### *Interest Rate Risk*

In accordance with the School District's investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, liquid asset funds, money market funds, or similar investment pools, and limiting the average maturity in accordance with the School District's cash requirements. MILAF investments are carried at amortized cost and are not subject to any withdrawal restrictions.

The School District's investments have the following maturities:

Investment Type	Fair Value	Investment Maturities (in years)			
		Current	1-5	6-10	More than 10
Certificates of deposit	\$ 57,724	\$ 57,724	\$ -	\$ -	\$ -
Investment pools	9,645,185	9,645,185	-	-	-
	<u>\$ 9,702,909</u>	<u>\$ 9,702,909</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

### *Investments*

The School District's investment policy permits investments in the following vehicles:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.
7. Securities issued or guaranteed by agencies of the United States government.
8. Michigan Investment Liquid Asset Fund Plus ("MILAF")

### *Credit Risk*

The School District's investment in the MILAF investment pool was rated AAAm by Standard and Poor's.

**NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE**

***Property Taxes Receivable, Unearned Revenue and Property Tax Calendar***

Property taxes are levied, billed and attached as enforceable liens in July of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the county as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred inflows. In the district-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$10.901 per \$1,000 of equalized non-principal residence property value of \$357 million was levied for general operating purposes. For debt service purposes, \$2.840 per \$1,000 of equalized principal, non-principal residence property and commercial personal property value of \$600 million was levied for bonded debt repayments by the Debt Service Fund. For sinking fund purposes, \$0.296 per \$1,000 of equalized principal, non-principal residence property and commercial personal property value of \$600 million was levied.

***Intergovernmental Receivables and Unearned Revenue***

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned, when eligibility requirements are met. Grant revenues are deferred in the governmental fund financial statements and included in unearned revenue.

Amounts due from other governments at June 30, 2019 are as follows:

Due from the State of Michigan - State Aid	\$ 259,668
Due from Federal Grants	68,277
Other	<u>9,336</u>
	<u>\$ 337,281</u>

# NOTES TO FINANCIAL STATEMENTS - Continued

## NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	Beginning Balance	Additions	Disposals	Ending Balance
Buildings and improvements	\$11,285,980	\$ 111,757	\$ -	\$11,397,737
Furniture and equipment	2,072,453	55,658	(38,392)	2,089,719
Buses and vehicles	<u>592,564</u>	<u>-</u>	<u>(72,981)</u>	<u>519,583</u>
Total depreciable assets	13,950,997	167,415	(111,373)	14,007,039
Less accumulated depreciation	(6,393,421)	(494,928)	111,373	(6,776,976)
Construction-in-process	<u>-</u>	<u>1,447,793</u>	<u>-</u>	<u>1,447,793</u>
Total capital assets, net	<u>\$ 7,557,576</u>	<u>\$ 1,120,280</u>	<u>\$ -</u>	<u>\$ 8,677,856</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	<u>\$ 494,928</u>
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## NOTE F - LONG-TERM LIABILITIES

Changes in long-term liabilities during the year ended June 30, 2019 were as follows:

	Beginning Balance	New Debt	Payments	Ending Balance	Current Portion
2010 Refunded general obligation and school improvement bonds	\$ 2,190,000	\$ -	\$ (705,000)	\$ 1,485,000	\$ 735,000
2018 School Building and Site Bonds	9,475,000	-	(280,000)	9,195,000	350,000
2014 Technology and Bus Bonds	205,000	-	(205,000)	-	-
2016 Technology and Bus Bonds	535,000	-	(45,000)	490,000	245,000
Unamortized bond premium	560,080	-	(37,506)	522,574	37,506
Accumulated leave liability	<u>117,496</u>	<u>3,943</u>	<u>-</u>	<u>121,439</u>	<u>-</u>
Long-term liabilities	<u>\$ 13,082,576</u>	<u>\$ 3,943</u>	<u>\$ (1,272,506)</u>	<u>\$ 11,814,013</u>	<u>\$ 1,367,506</u>

Payments on general obligation, building and site and technology and bus bonds are made by Debt Service Funds. The accumulated leave liability will be liquidated primarily by the General Fund.

## NOTES TO FINANCIAL STATEMENTS - Continued

At June 30, 2019, the School District's long-term debt consisted of the following:

\$6,845,000; 2010 Refunding and School Improvement Bonds; remaining installments due annually of \$735,000 to \$750,000 through May 1, 2021; remaining interest rates of 4.00% to 4.25%.	\$ 1,485,000
\$9,475,000; 2018 School Building and Site Bonds; remaining installments due annually of \$225,000 to \$500,000 through May 1, 2042; remaining interest rate of 3.00% to 4.00%	9,195,000
\$600,000; 2016 School Technology and Bus Bonds; remaining installments due annually \$245,000 through May 1, 2021; interest rate of 2.00%.	<u>490,000</u>
Total bonds payable	11,170,000
Unamortized bond premium	522,574
Accumulated leave liability	<u>121,439</u>
Total long-term liabilities	<u><u>\$11,814,013</u></u>

Total annual requirements to amortize bonds outstanding as of June 30, 2019 are as follows:

Years Ending June 30,	Principal	Interest
2020	\$ 1,330,000	\$ 424,124
2021	1,220,000	379,326
2022	225,000	335,800
2023	225,000	329,050
2024	225,000	322,300
2025 - 2029	1,855,000	1,456,550
2030 - 2034	2,320,000	1,033,600
2035 - 2039	2,390,000	564,600
2040 - 2042	<u>1,380,000</u>	<u>105,600</u>
	<u><u>\$11,170,000</u></u>	<u><u>\$ 4,950,950</u></u>

Interest expense for the year ended June 30, 2019 was \$409,888, and interest paid for the year ended June 30, 2019 was \$407,041.

### ***Accumulated Leave Liability***

Employees of the School District accumulate days of sick pay, as specified by the bargaining units' contract. Administrators of the School District accumulate days of sick pay, as specified in their individual contracts. Upon either separation or retirement, the employees and administrators are compensated at daily rates specified in the bargaining units' and individual contracts.

## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Prior Year Defeasance of Debt***

On December 16, 2010, the School District issued \$6,845,000 in 2010 Refunding and School Improvement Bonds with interest rates ranging from 2.25% to 4.25%, to advance refund \$6,155,000 of outstanding 2001 Building and Site and Refunding Bonds with an interest rate varying between 4.25% and 4.875%. The net proceeds of \$6,219,760 plus \$78,500 from Debt Service Funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the redemption of the \$6,155,000 outstanding 2001 Building and Site Refunding Bonds. The outstanding principal of the defeased bonds was \$1,475,000 at June 30, 2019.

### ***Deferred Loss on Refunding***

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Deferred loss on refunding	\$ 60,604	\$ -	\$ (24,241)	\$ 36,363

## **NOTE G - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

The School District pays unemployment claims on a reimbursement basis. No significant claims are known to exist.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the School District's General Fund.

**NOTE H - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY**

***Receivables and Payables***

Outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds		
General Fund	\$ 84,364	\$ 3,300
Other Governmental Funds		
Food Service Fund	-	58,604
2018 Debt Retirement Fund	-	500
Infrastructure Fund	3,300	24,691
2016 Capital Projects Fund	-	569
	<u>\$ 87,664</u>	<u>\$ 87,664</u>

***Transfers and Payments***

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining Debt Service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental activities columns.

The following schedule reports transfers and payments within the reporting entity:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Major Governmental Funds		
General Fund	\$ -	\$ 10,000
Other Governmental Funds		
Food Service Fund	<u>10,000</u>	<u>-</u>
	<u>\$ 10,000</u>	<u>\$ 10,000</u>

## NOTE I - PENSION PLAN

### *Plan Description*

The Michigan Public School Employees' Retirement System ("MPERS") is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the Board's authority to promulgate or amend the provisions of the System. The Board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

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

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

The System's financial statements are available at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

### *Benefits Provided*

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

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

### *Regular Retirement*

The retirement benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation ("FAC"). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period.

There is no mandatory retirement age.



## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Funding Policy***

#### ***Defined Contribution Plan***

Employer contributions to the Plan are dependent on the plan elected by the participant.

#### ***Contributions***

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of September 30, 2018 will be amortized over a 21 year period beginning October 1, 2017 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for the Plan's fiscal year September 30, 2018:

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0-4.0%	17.89%
Member Investment Plan	3.0-7.0%	17.89%
Pension Plus	3.0-6.4%	16.61%
Pension Plus 2	6.2%	19.74%
Defined Contribution	0.0%	13.54%

Required contributions to the pension plan from the School District were \$1,052,533 for the year ended September 30, 2018.

The School District's contributions to the MPSERS Defined Contribution Plan were \$24,656, for the year ended June 30, 2019, which is equal to the pension expense recognized by the School District for the year.

NOTES TO FINANCIAL STATEMENTS - Continued

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

At June 30, 2019, the School District reported a liability of \$11,619,826 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2017. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the systems employers during the measurement period by the percent of pension contributions required from all applicable employees during the measurement period. At September 30, 2018, the School District's proportion was 0.03865312%, which was an increase of 0.00103919% from its proportion measured as of September 30, 2017.

For the year ended June 30, 2019, the School District recognized pension expense of \$1,687,064. At June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 53,918	\$ 84,439
Changes of assumptions	2,691,142	-
Net difference between projected and actual earnings on pension plan investments	-	794,501
Changes in proportion and differences between employer contributions and proportionate share of contributions	394,699	39,672
School District contributions subsequent to the measurement date	<u>506,903</u>	<u>-</u>
Total	<u>\$ 3,646,662</u>	<u>\$ 918,612</u>

From the above table, \$506,903 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2019	\$ 953,626
2020	645,076
2021	439,292
2022	<u>183,153</u>
Total	<u>\$ 2,221,147</u>

## NOTES TO FINANCIAL STATEMENTS - Continued

### *Actuarial Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actual valuation follows:

#### *Summary of Actuarial Assumptions*

Valuation Date:	September 30, 2017
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return	
MIP and Basic Plans:	7.05%
Pension Plus Plan:	7.0%
Pension Plus 2 Plan:	6.0%
Projected Salary Increases:	2.75-11.55%, including wage inflation at 2.75%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
	Active Members: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

#### Notes:

- Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, 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: 4.5304 for non-university employers
- Recognition period for assets in years: 5.0000
- Full actuarial assumptions are available in the 2018 MPSERS Comprehensive Annual Financial Report found on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

***Long-Term Expected Rate of Return on Investments***

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2018, are summarized in the following table:

Investment Category	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.7 %
Private Equity Pools	18.0	9.2
International Equity Pools	16.0	7.2
Fixed Income Pools	10.5	0.5
Real Estate and Infrastructure Pools	10.0	3.9
Absolute Return Pools	15.5	5.2
Short-Term Investment Pools	2.0	0.0
	<u>100.0 %</u>	

*\*Long-term rate of return does not include 2.3% inflation.*

***Rate of Return***

For the fiscal year ended September 30, 2018, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 11.11%. 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 7.05% was used to measure the total pension liability (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 7.05% (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 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 plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the School District's Proportionate Share 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 7.05% (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

1% Decrease (6.05% / 6.0% / 5.0%)	Current Single Discount Rate Assumption (7.05% / 7.0% / 6.0%)	1% Increase (8.05% / 8.0% / 7.0%)
\$ 15,255,934	\$ 11,619,826	\$ 8,598,811

***Michigan Public School Employees' Retirement System ("MPERS") Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS Comprehensive Annual Financial Report ("CAFR") available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

***Payables to the Michigan Public School Employees' Retirement System ("MPERS")***

The School District reported \$66,830 and \$742 payable to the plan at June 30, 2019 for legally required defined benefit and defined contribution plan contributions.

**NOTE J - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

***Plan Description***

The Michigan Public School Employees' Retirement System (System or MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

## NOTES TO FINANCIAL STATEMENTS - Continued

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

The System's financial statements are available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

### ***Benefits Provided***

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

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

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

### ***Contributions***

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

## NOTES TO FINANCIAL STATEMENTS - Continued

Employer OPEB 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, 2017 valuation will be amortized over a 21-year period beginning October 1, 2017 and ending September 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2018.

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.00%	6.44%
Personal Healthcare Fund (PHF)	0.00%	6.13%

Required contributions to the OPEB plan from the School District were \$257,054 for the year ended September 30, 2018.

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

At June 30, 2019, the School District reported a liability of \$3,147,927 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 30, 2017. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the systems during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2018, the School District's proportion was 0.03960179%, which was an increase of 0.00196987% from its proportion measured as of October 1, 2017.

# NOTES TO FINANCIAL STATEMENTS - Continued

For the year ended June 30, 2019, the School District recognized OPEB expense of \$183,706. At June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 585,910
Changes of assumptions	333,367	-
Net difference between projected and actual earnings on OPEB plan investments	-	120,982
Changes in proportion and differences between School District contributions and proportionate share of contributions	148,146	9,762
School District contributions subsequent to the measurement date	<u>203,898</u>	<u>-</u>
Total	<u>\$ 685,411</u>	<u>\$ 716,654</u>

From the above table, contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB of \$203,898 will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2019	\$ (62,203)
2020	(62,203)
2021	(62,203)
2022	(37,448)
2023	<u>(11,084)</u>
Total	<u>\$ (235,141)</u>



## NOTES TO FINANCIAL STATEMENTS - Continued

### *Actuarial Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

#### Summary of Actuarial Assumptions

Valuation Date:	September 30, 2017
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	7.15%
Projected Salary Increases:	2.75-11.55%, including wage inflation at 2.75%
Healthcare Cost Trend Rate:	7.5% Year 1 graded to 3.0% Year 12
Mortality:	Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
	Active Members: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

#### Other Assumptions

Opt Out Assumptions:	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.
Survivor Coverage:	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death.
Coverage Election at Retirement:	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

## NOTES TO FINANCIAL STATEMENTS - Continued

### Notes:

- Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual OPEB valuations beginning with the September 30, 2017 valuation. The total OPEB liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, 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: 5.6018 for non-university employers.
- Recognition period for assets in years: 5.0000.
- Full actuarial assumptions are available in the 2018 MPSERS Comprehensive Annual Financial Report found on the ORS website at ([www.michigan.gov/orsschools](http://www.michigan.gov/orsschools)).

### ***Long-Term Expected Rate of Return on Investments***

The long-term expected rate of return on 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 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 OPEB plan's target asset allocation as of September 30, 2018, are summarized in the following table:

Investment Category	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.7 %
Private Equity Pools	18.0	9.2
International Equity Pools	16.0	7.2
Fixed Income Pools	10.5	0.5
Real Estate and Infrastructure Pools	10.0	3.9
Absolute Return Pools	15.5	5.0
Short-Term Investment Pools	<u>2.0</u>	0.0
	<u><u>100.0 %</u></u>	

*\*Long-term rate of return does not include 2.3% inflation.*

### ***Rate of Return***

For the fiscal year ended September 30, 2018, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 10.75%. 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 7.15% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.15%. 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 OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

***Sensitivity of the School District's Proportionate Share 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 7.15%, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
\$ 3,779,023	\$ 3,147,927	\$ 2,617,099

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

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

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ 2,589,135	\$ 3,147,927	\$ 3,788,975

***OPEB Plan Fiduciary Net Position***

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2018 MPSERS CAFR, available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

***Payables to the OPEB Plan***

The School District reported \$5,346 payable to the Plan at June 30, 2019 for the OPEB liability.

**NOTE K - COMMITMENTS AND CONTINGENCIES**

***Capital Projects***

The Infrastructure Fund records capital project activities funded with a Sinking Fund millage. For these funds, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

The project for which the 2016 School Technology and Bus Bonds were issued has been completed as of June 30, 2019. The remaining 2016 Capital Projects Fund balance of \$36,887 at June 30, 2019, is expected to be fully expended by December 31, 2019, on projects detailed in the bond issue.

The School District began work on the 2018 capital project during the year ended June 30, 2018. The School District has committed to a total project cost of approximately \$10,059,000. Of this amount, the School District issued bonds in the amount of \$9,475,000 at a premium of approximately \$521,000, less an underwriter's discount of approximately \$132,000 and bond issuance costs of approximately \$67,000. Approximately \$63,000 will be received in the form of interest income. As of June 30, 2019, \$1,842,187 has been expended to date, leaving a remaining capital acquisition commitment of approximately \$8,217,000. The Capital Projects Fund balance was \$8,382,336 at June 30, 2019. The expected completion date is January 30, 2021.

***Federal and State Grants***

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

***Collectively Bargained Employment Agreements***

The teachers of the School District are organized under the Leland Public School Education Association. The Board of Education and the Leland Public School Education Association have a contract through August 14, 2019, and a new contract is in negotiations. The support staff are organized under the Northern Michigan Education Association. The Board of Education and the Northern Michigan Education Association have a contract through June 30, 2019, and a new contract is in negotiations.

**NOTE L - SUBSEQUENT EVENT**

The School District issued \$14,700,000 million in School Building and Site Bonds in August 2019; due in annual installments of \$780,000 to \$590,000; with an interest rate ranging from 2% to 4%; maturing May 2045.

Management has evaluated events and transactions for possible disclosure through October 18, 2019, the date the financial statements were available to be issued.

## **REQUIRED SUPPLEMENTARY INFORMATION**

# Leland Public School

## BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
Local and intermediate sources	\$ 4,049,146	\$ 4,191,360	\$ 4,215,844	\$ 142,214	\$ 24,484
State revenues	1,479,434	1,432,102	1,465,578	(47,332)	33,476
Federal revenues	763,453	774,705	768,425	11,252	(6,280)
Other	8,000	25,725	25,725	17,725	-
Total revenues	<u>6,300,033</u>	<u>6,423,892</u>	<u>6,475,572</u>	<u>123,859</u>	<u>51,680</u>
Expenditures					
Instruction	4,114,718	4,286,899	4,238,410	(172,181)	48,489
Supporting services	<u>2,390,769</u>	<u>2,503,601</u>	<u>2,531,064</u>	<u>(112,832)</u>	<u>(27,463)</u>
Total expenditures	<u>6,505,487</u>	<u>6,790,500</u>	<u>6,769,474</u>	<u>(285,013)</u>	<u>21,026</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(205,454)	(366,608)	(293,902)	(161,154)	72,706
Other financing uses					
Operating transfers out	<u>(22,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>12,000</u>	<u>-</u>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	(227,454)	(376,608)	(303,902)	(149,154)	72,706
Fund balance, beginning of year	<u>818,744</u>	<u>859,546</u>	<u>859,546</u>	<u>40,802</u>	<u>-</u>
Fund balance, end of year	<u>\$ 591,290</u>	<u>\$ 482,938</u>	<u>\$ 555,644</u>	<u>\$ (108,352)</u>	<u>\$ 72,706</u>

# Leland Public School

## SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

### Michigan Public School Employees Retirement Plan

	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>	<u>9/30/2014</u>
School District's proportion of collective net pension liability	0.03865312 %	0.03761393 %	0.03753 %	0.03642 %	0.03388 %
School District's proportionate share of net pension liability	\$ 11,619,826	\$ 9,747,368	\$ 9,364,376	\$ 8,895,917	\$ 7,461,744
School District's covered payroll	\$ 3,364,486	\$ 3,133,028	\$ 3,198,314	\$ 2,959,363	\$ 2,831,673
School District's proportionate share of net pension liability as a percentage of covered payroll	345.37 %	311.12 %	292.79 %	300.60 %	263.51 %
Plan fiduciary net position as a percentage of total pension liability	62.36 %	64.21 %	63.27 %	63.17 %	66.20 %

## SCHEDULE OF SCHOOL DISTRICT'S PENSION CONTRIBUTIONS

### Michigan Public School Employees Retirement Plan

	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
Statutorily required employer contributions	\$ 660,339	\$ 601,499	\$ 564,613	\$ 702,615	\$ 652,742
School District contributions made to the Plan	<u>660,339</u>	<u>601,499</u>	<u>564,613</u>	<u>702,615</u>	<u>652,742</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered payroll	\$ 3,540,807	\$ 3,299,434	\$ 3,122,446	\$ 3,027,169	\$ 2,951,608
Contributions as a percentage of covered payroll	18.65 %	18.23 %	18.08 %	23.21 %	22.11 %

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

Change of assumptions: There were no changes of benefit assumptions in 2018.

# Leland Public School

## SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

### Michigan Public School Employees Retirement Plan

	<u>9/30/2018</u>	<u>9/30/2017</u>
School District's proportion of collective net OPEB liability	0.03960179 %	0.03763192 %
School District's proportionate share of net OPEB liability	\$ 3,147,927	\$ 3,332,484
School District's covered payroll (OPEB)	\$ 3,364,486	\$ 3,133,028
School District's proportionate share of net OPEB liability as a percentage of covered payroll	93.56 %	106.37 %
Plan fiduciary net position as a percentage of total OPEB liability	42.95 %	36.39 %

## SCHEDULE OF SCHOOL DISTRICT'S OPEB CONTRIBUTIONS

### Michigan Public School Employees Retirement Plan

	<u>6/30/2019</u>	<u>6/30/2018</u>
Statutorily required OPEB contributions	\$ 230,774	\$ 200,800
OPEB contributions in relation to statutorily required contributions	<u>230,774</u>	<u>200,800</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
School District's covered payroll (OPEB)	\$ 3,540,807	\$ 3,299,434
OPEB contributions as a percentage of covered payroll	6.52 %	6.09 %

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

Change of assumptions: There were no changes of benefit assumptions in 2018.



**COMBINING FINANCIAL STATEMENTS OF  
NON-MAJOR GOVERNMENTAL FUNDS**

# Leland Public School

## COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2019

	Special Revenue Fund	Debt Service Funds					Capital Project Funds			Total Non-Major Governmental
	Food Service	2010 Refunding and School Improvement Debt Retirement Fund	2013-2014 Debt Retirement	2016 Debt Retirement	2018 Debt Retirement	Total	Infrastructure Fund	2016 Capital Projects Fund	Total	
<b>ASSETS</b>										
Cash and cash equivalents	\$ 125,089	\$ 97,154	\$ 32,542	\$ 11,809	\$ 52,371	\$ 193,876	\$ 442,382	\$ 37,456	\$ 479,838	\$ 798,803
Due from other funds	-	-	-	-	-	-	3,300	-	3,300	3,300
Inventory	2,538	-	-	-	-	-	-	-	-	2,538
Total assets	<u>\$ 127,627</u>	<u>\$ 97,154</u>	<u>\$ 32,542</u>	<u>\$ 11,809</u>	<u>\$ 52,371</u>	<u>\$ 193,876</u>	<u>\$ 445,682</u>	<u>\$ 37,456</u>	<u>\$ 483,138</u>	<u>\$ 804,641</u>
<b>LIABILITIES AND FUND BALANCES</b>										
<b>LIABILITIES</b>										
Accounts payable and accrued expenditures	\$ 795	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 795
Unearned revenue	8,476	-	-	-	-	-	-	-	-	8,476
Due to other funds	58,604	-	-	-	500	500	24,691	569	25,260	84,364
Total liabilities	<u>67,875</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>500</u>	<u>500</u>	<u>24,691</u>	<u>569</u>	<u>25,260</u>	<u>93,635</u>
<b>FUND BALANCES</b>										
Nonspendable	2,538	-	-	-	-	-	-	-	-	2,538
Restricted										
Food service	57,214	-	-	-	-	-	-	-	-	57,214
Debt retirement	-	97,154	32,542	11,809	51,871	193,376	-	-	-	193,376
Capital projects	-	-	-	-	-	-	420,991	36,887	457,878	457,878
Total fund balances	<u>59,752</u>	<u>97,154</u>	<u>32,542</u>	<u>11,809</u>	<u>51,871</u>	<u>193,376</u>	<u>420,991</u>	<u>36,887</u>	<u>457,878</u>	<u>711,006</u>
Total liabilities and fund balances	<u>\$ 127,627</u>	<u>\$ 97,154</u>	<u>\$ 32,542</u>	<u>\$ 11,809</u>	<u>\$ 52,371</u>	<u>\$ 193,876</u>	<u>\$ 445,682</u>	<u>\$ 37,456</u>	<u>\$ 483,138</u>	<u>\$ 804,641</u>

# Leland Public School

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2019

	Special Revenue Fund	Debt Service Funds					Capital Project Funds			Total Non-Major Governmental
	Food Service	2010 Refunding and School Improvement Debt Retirement Fund	2013-2014 Debt Retirement	2016 Debt Retirement	2018 Debt Retirement	Total	Infrastructure Fund	2016 Capital Projects Fund	Total	
Revenues										
Property taxes	\$ -	\$ 798,224	\$ 216,186	\$ 60,244	\$ 629,744	\$ 1,704,398	\$ 177,003	\$ -	\$ 177,003	\$ 1,881,401
Interest	31	11,061	3,225	639	6,959	21,884	9,946	1,772	11,718	33,633
State revenues	25,197	-	-	-	-	-	-	-	-	25,197
Federal revenues	119,552	-	-	-	-	-	-	-	-	119,552
Other	206,983	-	-	-	-	-	17,072	-	17,072	224,055
Total revenues	351,763	809,285	219,411	60,883	636,703	1,726,282	204,021	1,772	205,793	2,283,838
Expenditures										
Food Service	327,708	-	-	-	-	-	-	-	-	327,708
Other	-	1,626	-	-	-	1,626	-	-	-	1,626
Debt service										
Principal	-	705,000	205,000	45,000	280,000	1,235,000	-	-	-	1,235,000
Interest	-	87,713	4,408	10,700	304,220	407,041	-	-	-	407,041
Other	-	-	493	562	612	1,667	184	-	184	1,851
Capital outlay	-	-	-	-	-	-	141,170	71,263	212,433	212,433
Total expenditures	327,708	794,339	209,901	56,262	584,832	1,645,334	141,354	71,263	212,617	2,185,659
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	24,055	14,946	9,510	4,621	51,871	80,948	62,667	(69,491)	(6,824)	98,179
Other financing sources										
Operating transfers in	10,000	-	-	-	-	-	-	-	-	10,000
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES</b>	34,055	14,946	9,510	4,621	51,871	80,948	62,667	(69,491)	(6,824)	108,179
Fund balance, beginning of year	25,697	82,208	23,032	7,188	-	112,428	358,324	106,378	464,702	602,827
Fund balance, end of year	\$ 59,752	\$ 97,154	\$ 32,542	\$ 11,809	\$ 51,871	\$ 193,376	\$ 420,991	\$ 36,887	\$ 457,878	\$ 711,006

## **OTHER SUPPLEMENTARY INFORMATION**

# Leland Public School

## 2016 CAPITAL PROJECTS FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Thirty-Sixth Month and Ten Day Period Ended June 30, 2019

Revenue	
Investment income	<u>\$ 8,838</u>
Expenditures	
Capital outlay	556,661
Bond issuance costs & other	<u>14,380</u>
Total expenditures	<u>571,041</u>
<b>REVENUE UNDER EXPENDITURES</b>	<u>(562,203)</u>
Other financing sources (uses)	
Bond proceeds	598,424
Operating transfers in	<u>666</u>
Total other financing sources	<u>599,090</u>
<b>REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES</b>	36,887
Fund balance, beginning of period	<u>-</u>
Fund balance, end of period	<u><u>\$ 36,887</u></u>

## **FEDERAL PROGRAMS**

**Leland Public School**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2019**

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue Beginning of Year	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue End of Year
United States Department of Agriculture Passed Through Michigan Department of Education							
Child Nutrition Cluster							
School Breakfast Program							
191970-Breakfast	10.553	\$ 34,854	\$ -	\$ -	\$ 33,074	\$ 34,854	\$ 1,780
National School Lunch Program							
191960-Free and Reduced	10.555	68,532	-	-	65,412	68,532	3,120
USDA Entitlement Commodities	10.555	-	-	-	16,166	16,166	-
Total National School Lunch Program		68,532	-	-	81,578	84,698	3,120
Total Child Nutrition Cluster		103,386	-	-	114,652	119,552	4,900
United States Department of Education							
Passed through Michigan Department of Education							
Title I, Grants to Local Educational Agencies (Title I, Part A)							
181530-1718	84.010	47,733	42,622	42,622	42,622	-	-
191530-1819	84.010	41,079	-	-	-	41,079	41,079
Supporting Effective Instruction State Grants							
180520-1718	84.367	10,856	9,954	9,954	9,954	-	-
190520-1819	84.367	10,630	-	-	-	10,630	10,630
Student Support and Academic Enrichment Program							
180750-1718	84.424A	10,000	7,221	7,221	7,221	-	-
190750-1819	84.424A	11,668	-	-	-	11,668	11,668
Total passed through Michigan Department of Education		131,966	59,797	59,797	59,797	63,377	68,277
Direct grants							
Impact Aid (Title VII)	84.041	665,637	-	-	665,637	665,637	-
Small Rural Schools Achievement Program	84.358A	36,515	-	-	36,515	36,515	-
Total U.S. Department of Education		834,118	59,797	59,797	761,949	765,529	68,277
United States Department of Health and Human Services							
Passed Through Traverse Bay Area ISD							
Medicaid Cluster							
Medical Assistance Program							
Medicaid - School Based Services	93.778	2,896	-	-	2,896	2,896	-
Total Federal Financial Assistance		\$ 940,400	\$ 59,797	\$ 59,797	\$ 879,497	\$ 887,977	\$ 68,277

-47- The accompanying notes are an integral part of this schedule.

## **Leland Public School**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

June 30, 2019

- Note 1**      The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the School District, and is prepared on the modified accrual basis of accounting. The information in this schedule is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the basic financial statements.
- Note 2**      Management has reported that expenditures in this Schedule of Expenditures of Federal Awards are equal to those amounts reported in the annual or final cost reports. Unallowed differences, if any, have been disclosed to the auditor.
- Note 3**      The financial reports, including claims for advances and reimbursements and amounts claimed or used for matching are timely, complete, accurate and contain information that is supported by the books and records from which the basic financial statements have been prepared. Grant receipts reported on the Schedule of Expenditures of Federal Awards, as passed through the Michigan Department of Education, reconcile to the Grant Auditor's Report (R7120). Unreconciled differences have been disclosed to the auditor.
- Note 4**      The School District did not use the 10% de-minimis indirect cost rate allowed under the Uniform Guidance.
- Note 5**      Expenditures on the Schedule of Expenditures of Federal Awards agrees with Federal Revenue sources reported in the financial statements.





DENNIS, GARTLAND & NIERGARTH

*Celebrating 45 Years of Service*

Certified Public Accountants  
Business Advisors

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

Board of Education  
Leland Public School

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 the **Leland Public School** (the "School District") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 18, 2019.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001 and 2019-002, that we consider to be material weaknesses.

### **Compliance and Other Matters**

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

### **School District's Response to Findings**

The School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*Dennis, Gartland & Niergarth*

October 18, 2019



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

Board of Education  
Leland Public School

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

We have audited the *Leland Public School* (the "School District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on the School District's major Federal program for the year ended June 30, 2019. The School District's major Federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major Federal program. However, our audit does not provide a legal determination of the School District's compliance.

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

In our opinion, the Leland Public School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2019.

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

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

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

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

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

*Dennis, Gartland & Niergarth*

October 18, 2019

# **Leland Public School**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2019

### **PRIOR YEAR**

Findings 2018-001 and 2018-002 are repeated this year in Section 2 as Findings 2019-001 and 2019-002.

### **CURRENT YEAR**

#### ***Section 1 - Summary of Auditors' Results***

1. The auditor's report represents an unmodified opinion on the financial statements of the Leland Public School.
2. There were two material weaknesses in internal control reported as a result of the audit of the financial statements. See Section 2 - Findings in Accordance with *Government Auditing Standards*.
3. There were no compliance findings disclosed that were material to the School District's financial statements.
4. There were no reported significant deficiencies in internal control over major programs.
5. The report over compliance for major programs was unmodified.
6. There were no audit findings relative to major programs that are required to be reported.
7. The School District's major program was Impact Aid (Title VII) (CFDA No. 84.041).
8. The dollar threshold for distinguishing between Type A and Type B programs was \$750,000.
9. Leland Public School did not qualify as a low risk auditee.

***Section 2 - Findings in Accordance with Government Auditing Standards***

**Finding Number 2019-001**

**Material Weakness in Internal Control over Financial Reporting  
Preparation of Financial Statements**

**Criteria:** All Michigan governments are required to prepare financial statements and Schedule of Expenditures of Federal Awards in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the School District's management. The preparation of financial statements and Schedule of Expenditures of Federal Awards in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records) and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

**Condition:** As is the case with many smaller and medium-sized schools, the School District has historically relied on its independent external auditors to adjust the accounting records and assist in the preparation of the basic financial statements and Schedule of Expenditures of Federal Awards as part of its external financial reporting process. Accordingly, the School District's ability to prepare financial statements and Schedule of Expenditures of Federal Awards in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the School District's internal controls.

**Cause:** This condition was caused by the School District's decision that it is more cost effective to outsource the preparation of its annual financial statements and Schedule of Expenditures of Federal Awards to auditors than to incur the time and expense of obtaining the necessary resources required for the School District to perform this task internally.

**Effect:** As a result of this condition, the School District lacks internal controls over the preparation of financial statements and Schedule of Expenditures of Federal Awards in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

**Management's Response:** The School District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the School District to outsource this task to its external auditors and to carefully review the draft financial statements, notes and Schedule of Expenditures of Federal Awards prior to approving them and accepting responsibility for their content and presentation. To aid in the review and approval process, the business manager of the School District has attended professional development classes related to the preparation of financial statements.

***Section 2 - Findings in Accordance with Government Auditing Standards - Continued***

**Finding Number 2019-002**

**Material Weakness in Internal Control over Financial Reporting**

**Lack of Segregation of Duties**

**Criteria:** Segregation of duties for the School District is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

**Condition:** The School District has not achieved a complete segregation of duties among employees who have access to assets and those with accounting responsibilities.

**Cause:** The small size of the business office staff creates an inherent lack of segregation of duties.

**Effect:** As a result of this condition, the School District lacks complete segregation of duties and is exposed to the risk of material misstatement of its financial statements.

**Management's Response:** The School District has evaluated the manner in which they segregate duties and has implemented measures such as Board review of all expenditures. However, the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

***Section 3 - Findings and Questioned Costs in Accordance with the Uniform Guidance***

No findings or questioned costs.