

Leland Public School

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2018

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Management's Discussion and Analysis

For the year ended June 30, 2018

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, 2018. 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 12th 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 2017-2018 school year was 553 pupils with the inclusion of part-time parochial students.

OVERVIEW OF THE FINANCIAL STATEMENTS

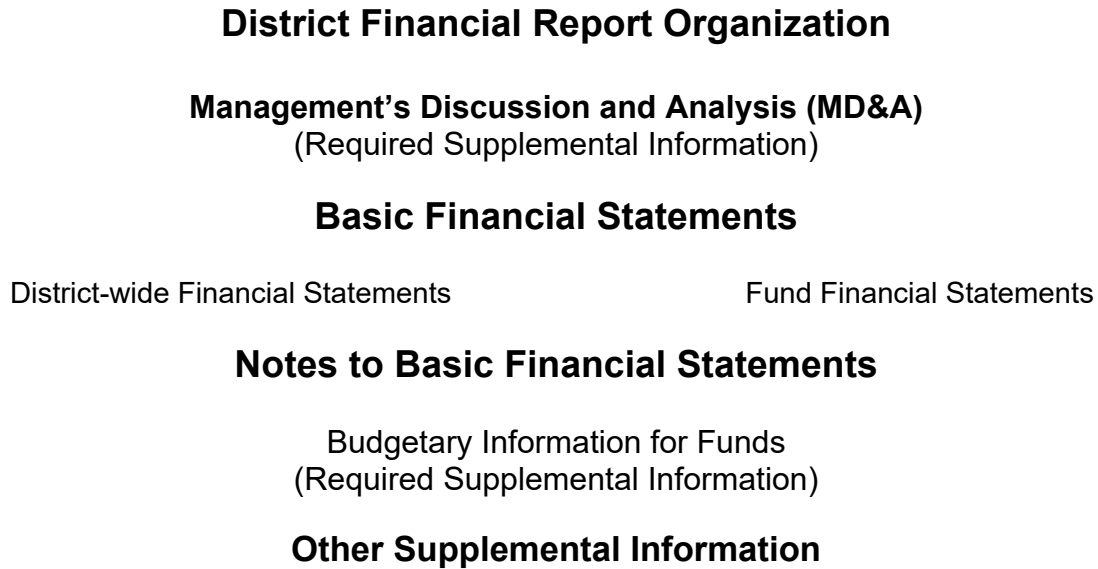
This annual report consists of three sections presented in the following order: Management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include several kinds of statements that present different views of the District:

- 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



DISTRICT-WIDE STATEMENTS

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, the 2018 capital projects fund and the 2010 refunding and school improvement debt retirement 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, 2018:

TABLE 1

	Governmental Activities		
	June 30, 2017	June 30, 2018	% Change
Assets			
Current and other assets	2,183,357	11,801,786	440.53%
Capital assets	7,911,420	7,557,576	1.00%
Total assets	10,094,777	19,359,362	91.78%
Deferred Outflow of Resources	1,493,936	2,222,491	48.77%
Total assets and deferred outflows	\$ 11,588,713	\$ 21,581,853	86.23%
Liabilities			
Current liabilities	1,428,247	1,984,545	38.95%
Long-term liabilities	3,062,142	11,810,070	285.68%
Net pension obligation	9,364,376	9,747,368	4.09%
Net OPEB obligation	-	3,332,484	
Total liabilities	13,854,765	26,874,467	93.97%
Deferred Inflows of Resources	46,533	651,192	1299.42%
Net Assets Invested in			
Property and Equipment –			
Net of related debt	4,085,903	(5,346,900)	-230.86%
Restricted for:			
Public Improvements	604,311	10,159,916	1581.24%
Debt Service	61,192	44,588	-27.13%
Food Service	28,320	25,697	-9.26%
Unrestricted (deficit)	(7,092,311)	(10,827,107)	52.66%
Total net position	\$ (2,312,585)	(5,943,806)	157.02%
Total Liabilities and net position	\$ 11,588,713	\$ 21,581,853	86.23%

The above analysis focuses on the net position (see Table 1). The District's net position was (\$2,312,585) at June 30, 2017 and (\$5,943,806) at June 30, 2018. 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 2018. Revenue and expense for fiscal year 2017 is also shown for comparison purposes.

TABLE 2

	Governmental Activities		
	June 30, 2017	June 30, 2018	% Change
Program Revenues:			
Charges for services	\$ 147,309	\$ 151,632	2.93%
Operating grants and contributions	918,685	1,001,917	9.06%
General Revenue			
Property taxes			
Levied for general purpose	3,568,950	3,686,380	3.29%
Levied for debt service	1,051,438	1,078,651	2.59%
Levied for sinking fund	173,767	168,324	-3.13%
State School Aid- unrestricted	416,887	684,437	64.18%
Unrestricted Federal aid	707,432	674,883	-4.60%
Grants and contributions- unrestricted	194,324	230,382	18.56%
Other	35,556	123,378	247.00%
Total Revenues	<u>7,214,348</u>	<u>7,799,984</u>	<u>8.12%</u>
Functions/Program Expenses			
Instruction	3,858,725	4,116,017	6.67%
Support services	2,447,964	2,720,856	11.15%
Food Service	255,800	236,676	-7.48%
Other transactions	39,929	360,520	802.90%
Interest on Long Term Debt	163,113	186,621	14.41%
Depreciation (unallocated)	431,679	441,001	2.16%
Total Expenses	<u>7,197,210</u>	<u>8,061,691</u>	<u>12.01%</u>
Increase in Net Position	<u>17,138</u>	<u>(261,707)</u>	<u>-1627.06%</u>
Net position, beginning of year, <i>as restated</i>	<u>(2,329,723)</u>	<u>(5,682,099)</u>	<u>143.90%</u>
Net position, end of the year	<u>\$ (2,312,585)</u>	<u>\$ (5,943,806)</u>	<u>157.02%</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$8,061,691. Certain activities were partially funded by those who benefited from the programs, such as food service and athletics, (\$147,832) or by other grants and contributions (\$1,001,997). We paid for the remaining “public benefit” portion of our governmental activities with \$4,933,355 in taxes, \$684,437 in State Aid, \$674,883 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 District 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 \$859,546, which is a decrease of \$142,558 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:

- More students than expected increased revenues
- Several grant revenues were higher than originally budgeted
- New LEA contract increased teacher salaries & benefits
- Health insurance costs increased
- More special education students required aides

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, 2018, \$441,001 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 decrease in capital assets in the amount of \$353,844 for the fiscal year ended June 30, 2018.

Debt

At June 30, 2018, the District had \$13,069,742 debt owing. Of that amount, \$9,475,000 is due to bonds sold for the start of a 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.

- The State of Michigan per pupil funding for 2018-2019 is just slightly higher than the amount received in 2008-2009. Increases in revenues are not keeping up the increases in expenses.
- Rates in the required MPSERS retirement system continue to climb. The 2018-19 MPSERS rates range from 20.96% - 27.16% of all gross wages.
- Although the State of Michigan cap on insurance expenses has limited the cost to the district, the average cost of a family policy is becoming difficult to fund. A lower cap on employee insurance may have to be discussed at the next contract negotiations.
- Under the requirements of the Affordable Care Act, health insurance must be provided to two part time employees creating additional costs.
- The required State of Michigan retirement and Federal social security payments along with the negotiated health insurance benefit cost the district 50% - 70% of gross wages of most employees. If costs cannot be contained, loss of jobs may occur which is detrimental to both students and staff.

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.

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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, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Accounting Change

As described in Note B to the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, Financial Reporting for Post-Employment Benefits Other Than Pensions, during the year ended June 30, 2018.

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 *viii*, budgetary comparison information on page 39, Pension contribution schedule on page 40, and OPEB contribution schedule on page 41 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 inquires 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 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.

The combining non-major fund financial statements 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 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 24, 2018, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 24, 2018

Leland Public School
STATEMENT OF NET POSITION
June 30, 2018

	<u>Governmental Activities</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
ASSETS	
Current assets	
Cash and cash equivalents	\$ 11,457,915
Due from other governments	324,519
Prepays	15,146
Inventory	<u>4,206</u>
Total current assets	11,801,786
Capital assets, net of accumulated depreciation	<u>7,557,576</u>
Total assets	19,359,362
DEFERRED OUTFLOWS OF RESOURCES	
Deferred loss on refunding	60,604
Pension obligation	2,008,981
OPEB obligation	<u>152,906</u>
Total assets and deferred outflows of resources	<u><u>\$ 21,581,853</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	\$ 706,283
Current portion of long-term liabilities	1,272,506
Unearned revenue	<u>5,756</u>
Total current liabilities	1,984,545
Non-current portion of long-term obligations	11,810,070
Net pension obligation	9,747,368
Net OPEB obligation	<u>3,332,484</u>
Total liabilities	<u>26,874,467</u>
DEFERRED INFLOWS OF RESOURCES	
Pension obligation	538,018
OPEB obligation	<u>113,174</u>
Total deferred inflows of resources	<u>651,192</u>
NET POSITION	
Invested in capital assets, net of related debt	(5,346,900)
Restricted for	
Capital projects	10,159,916
Debt Service	44,588
Food Service	25,697
Unrestricted (deficit)	<u>(10,827,107)</u>
Total net position	<u>(5,943,806)</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 21,581,853</u></u>

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

Leland Public School
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

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	\$ 4,116,017	\$ -	\$ 881,746	\$ (3,234,271)
Supporting Services	2,720,856	-	-	(2,720,856)
Athletics	-	14,074	-	14,074
Food Service	236,676	137,558	120,171	21,053
Other	360,520	-	-	(360,520)
Interest on long-term debt	186,621	-	-	(186,621)
Depreciation-unallocated	<u>441,001</u>	<u>-</u>	<u>-</u>	<u>(441,001)</u>
Total governmental activities	<u>\$ 8,061,691</u>	<u>\$ 151,632</u>	<u>\$ 1,001,917</u>	<u>(6,908,142)</u>
General purpose revenues				
Property taxes				
Levied for general purposes				3,686,380
Levied for Debt Service				1,078,651
Levied for Sinking Fund				168,324
State school aid - unrestricted				684,437
Unrestricted Federal aid				674,883
Grants and contributions not restricted to specific program				230,382
Investment and other				<u>123,378</u>
Total general purpose revenues				<u>6,646,435</u>
Change in net position				(261,707)
Net position, beginning of year, as restated				<u>(5,682,099)</u>
Net position, end of year				<u>\$ (5,943,806)</u>

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

Leland Public School

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018

	General Fund	2010 Refunding and School Improvement Debt Retirement Fund	2018 Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 958,701	\$ 82,269	\$ 9,865,306	\$ 551,639	\$ 11,457,915
Due from other governments	324,519	-	-	-	324,519
Prepays	15,146	-	-	-	15,146
Due from other funds	32,397	-	-	3,300	35,697
Inventory	-	-	-	4,206	4,206
Total assets	<u>\$ 1,330,763</u>	<u>\$ 82,269</u>	<u>\$ 9,865,306</u>	<u>\$ 559,145</u>	<u>\$ 11,837,483</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenditures	\$ 467,917	\$ -	\$ 170,092	\$ 434	\$ 638,443
Unearned revenue	-	-	-	5,756	5,756
Due to other funds	<u>3,300</u>	<u>61</u>	<u>-</u>	<u>32,336</u>	<u>35,697</u>
Total liabilities	<u>471,217</u>	<u>61</u>	<u>170,092</u>	<u>38,526</u>	<u>679,896</u>
FUND BALANCES					
Nonspendable	15,146	-	-	4,206	19,352
Restricted					
Food Service	-	-	-	21,491	21,491
Debt retirement	-	82,208	-	30,220	112,428
Capital projects	-	-	9,695,214	464,702	10,159,916
Committed					
Subsequent year expenditures	227,454	-	-	-	227,454
Assigned					
Future technology purchases	113,000	-	-	-	113,000
Employee leave liability	117,496	-	-	-	117,496
Unassigned	<u>386,450</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>386,450</u>
Total fund balances	<u>859,546</u>	<u>82,208</u>	<u>9,695,214</u>	<u>520,619</u>	11,157,587
Total liabilities and fund balances	<u>\$ 1,330,763</u>	<u>\$ 82,269</u>	<u>\$ 9,865,306</u>	<u>\$ 559,145</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 \$13,950,997 and the accumulated depreciation is \$(6,393,421).

7,557,576

Deferred outflows of resources are not a financial resource and, therefore, are not reported in governmental funds.

2,161,887

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	\$ 12,405,000	
Accrued interest on bonds	67,840	
Unamortized bond refunding loss	(60,604)	
Unamortized bond premium	560,080	
Accumulated leave liability	117,496	
Net pension obligation	9,747,368	
Net OPEB obligation	<u>3,332,484</u>	(26,169,664)

Deferred inflows of resources are not a financial resource and, therefore, are not reported as a liability in governmental funds.

(651,192)

Total net position - governmental activities

\$ (5,943,806)

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, 2018

	General Fund	2010 Refunding and School Improvement Debt Retirement Fund	2018 Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 3,686,380	\$ 804,678	\$ -	\$ 442,297	\$ 4,933,355
Interest	31,486	7,242	1,698	5,188	45,614
State revenues	1,468,843	-	-	9,629	1,478,472
Federal revenues	772,223	-	-	110,542	882,765
Other	244,459	-	-	215,319	459,778
Total revenues	6,203,391	811,920	1,698	782,975	7,799,984
Expenditures					
Current					
Instruction	3,972,270	-	-	-	3,972,270
Supporting Services	2,316,535	-	-	-	2,316,535
Food Service	-	-	-	236,676	236,676
Other	29,274	224	-	31,841	61,339
Debt Service					
Principal	-	680,000	-	245,000	925,000
Interest	-	111,513	-	20,815	132,328
Other	-	749	298,432	-	299,181
Capital outlay	17,870	-	3,587	391,044	412,501
Total expenditures	6,335,949	792,486	302,019	925,376	8,355,830
REVENUES OVER (UNDER) EXPENDITURES	(132,558)	19,434	(300,321)	(142,401)	(555,846)
Other financing sources (uses)					
Operating transfers in	-	-	-	10,711	10,711
Operating transfers out	(10,000)	-	-	(711)	(10,711)
Proceeds from bond issue	-	-	9,995,535	-	9,995,535
Total other financing sources (uses)	(10,000)	-	9,995,535	10,000	9,995,535
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(142,558)	19,434	9,695,214	(132,401)	9,439,689
Fund balance, beginning of year	1,002,104	62,774	-	653,020	1,717,898
Fund balance, end of year	<u>\$ 859,546</u>	<u>\$ 82,208</u>	<u>\$ 9,695,214</u>	<u>\$ 520,619</u>	<u>\$ 11,157,587</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, 2018

Total Net Change in Fund Balances - Governmental Funds	\$ 9,439,689
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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 \$ 87,157	
Depreciation expense <u>(441,001)</u>	(353,844)

Change in deferred outflows of resources for pension obligation of \$599,890 and OPEB obligation of \$7,388.	607,278
--	---------

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 \$24,899.	(24,899)
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Repayment of bond and loan 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.	925,000
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Proceeds from the bond issue are a financing source in the governmental funds, but are recorded as a liability in the statement of net position.	(9,475,000)
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Net amortization of bond refunding loss and bond premium	(528,959)
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Increase in net pension obligation	(382,992)
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Decrease in OPEB obligation	182,548
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Change in deferred inflows of resources for pension obligation of \$(491,485) and OPEB obligation of \$(113,174).	(604,659)
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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>(45,869)</u>
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Changes in Net Position of Governmental Activities	<u><u>\$ (261,707)</u></u>
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Leland Public School

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2018

	Private Purpose Trust Funds	Agency Funds	Total
ASSETS			
Cash and cash equivalents	\$ 22,481	\$ 110,884	\$ 133,365
Investments	<u>57,409</u>	<u>-</u>	<u>57,409</u>
Total assets	<u>\$ 79,890</u>	<u>\$ 110,884</u>	<u>\$ 190,774</u>
LIABILITIES AND NET POSITION			
LIABILITIES			
Due to student groups	\$ -	\$ 110,884	\$ 110,884
NET POSITION			
Held in trust for scholarships	<u>79,890</u>	<u>-</u>	<u>79,890</u>
Total liabilities and net position	<u>\$ 79,890</u>	<u>\$ 110,884</u>	<u>\$ 190,774</u>

Leland Public School
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2018

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Contributions	\$ 38,751
Interest	<u>2,340</u>
Total additions	41,091
DEDUCTIONS	
Scholarships awarded	<u>36,251</u>
Change in net position	4,840
Net position, beginning of year	<u>75,050</u>
Net position, end of year	<u><u>\$ 79,890</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, 2018, the School District employs 40 professional staff and 29 non-professional staff, and has 553 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, 2018.

Financial Reporting Entity

Leland Public School District's Board 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 2010 Refunding and School Improvement Debt Retirement Fund is used to account for the accumulation of resources (property taxes) for, and the payment of, bond principal, interest and related costs.

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.

The 2013-2014 Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of bond principal, interest and related costs.

The 2016 Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of bond principle, interest and related costs.

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.

The 2014 Capital Projects Fund is used to account for financial resources (bond proceeds) to be used for the acquisition of equipment, technology and buses.

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.

The Public Improvement Fund is a capital project fund and is used to account for financial resources to be used for the acquisition or construction of capital assets.

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.

NOTES TO FINANCIAL STATEMENTS - Continued

Cash and 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.

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, in years, for depreciable assets are as follows:

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

Deferred Inflows and Outflows

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 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 obligation. 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 for details of deferred outflows and inflows related to the pension obligation.

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.

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.

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.

Post-Employment Benefits Other than Pensions

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public 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.

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.

NOTE B - ACCOUNTING CHANGES

In June 2015, the Governmental Accounting Standards Board issued Statement No. 75 ("GASB 75"), *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*, an amendment of GASB Statement No. 45. GASB 75 improves accounting and financial reporting by state and local governments for post-employment benefits other than pensions. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB 75 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity and creating additional transparency.

NOTES TO FINANCIAL STATEMENTS - Continued

GASB 75 requires employers to report net OPEB benefits as a liability in the statement of net position. GASB 75 requires immediate recognition of the OPEB expense, including annual service cost and interest, and the effect of changes in benefit terms on the net OPEB liability. Cost-sharing employers are required to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. GASB 75 also requires expanded note disclosures and required supplementary information covering the past 10 years for the net OPEB liability.

The School District implemented GASB 75 during the year by retroactive restatement of June 30, 2017 net position, as follows:

Net position at June 30, 2017, <i>as originally stated</i>	\$ (2,312,585)
Record net OPEB liability at June 30, 2017	<u>(3,369,514)</u>
Net position at June 30, 2017, <i>as restated</i>	<u><u>\$ (5,682,099)</u></u>

NOTE C - 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, 2018, 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	\$ 2,352,017	\$ 2,363,679	\$ 11,662

NOTE D - CASH AND INVESTMENTS

At June 30, 2018, the School District's cash and investments include the following:

Bank deposits and cash on hand	\$ 785,647
Certificates of Deposit	57,409
Investment pools ("MILAF")	<u>10,805,633</u>
	<u><u>\$11,648,689</u></u>

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, 2018, \$355,290 of the School District's bank balance was exposed to custodial credit risk because it is uninsured and uncollateralized.

NOTES TO FINANCIAL STATEMENTS - Continued

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	\$ 57,409	\$ 57,409	\$ -	\$ -	\$ -
Investment pools	<u>10,805,633</u>	<u>10,805,633</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>\$10,863,042</u></u>	<u><u>\$10,863,042</u></u>	<u><u>\$ -</u></u>	<u><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 E - 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 \$339 million was levied for general operating purposes. For debt service purposes, \$1.890 per \$1,000 of equalized principal, non-principal residence property and commercial personal property value of \$570 million was levied for bonded debt repayments by the Debt Service Fund. For sinking fund purposes, \$0.295 per \$1,000 of equalized principal, non-principal residence property and commercial personal property value of \$570 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, 2018 are as follows:

Due from the State of Michigan - State Aid	\$ 244,598
Due from Federal Grants	59,797
Other	<u>20,124</u>
	<u>\$ 324,519</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE F - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	June 30, 2017	Additions	Disposals	June 30, 2018
Buildings and improvements	\$11,285,980	\$ -	\$ -	\$11,285,980
Furniture and equipment	2,293,883	5,600	(227,030)	2,072,453
Buses and vehicles	<u>511,007</u>	<u>81,557</u>	<u>-</u>	<u>592,564</u>
Total depreciable assets	14,090,870	87,157	(227,030)	13,950,997
Less accumulated depreciation	<u>(6,179,450)</u>	<u>(441,001)</u>	<u>227,030</u>	<u>(6,393,421)</u>
Total capital assets, net	<u>\$ 7,911,420</u>	<u>\$ (353,844)</u>	<u>\$ -</u>	<u>\$ 7,557,576</u>

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

Unallocated	<u>\$ 441,001</u>
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NOTE G - LONG-TERM LIABILITIES

Changes in long-term liabilities during the year ended June 30, 2018 were as follows:

	Beginning Balance	New Debt	Payments	Ending Balance	Current Portion
2010 Refunded general obligation and school improvement bonds	\$ 2,870,000	\$ -	\$ (680,000)	\$ 2,190,000	\$ 705,000
2018 School Building and Site Bonds	-	9,475,000	-	9,475,000	280,000
2014 Technology and Bus Bonds	410,000	-	(205,000)	205,000	205,000
2016 Technology and Bus Bonds	575,000	-	(40,000)	535,000	45,000
Unamortized bond premium	55,362	520,535	(15,817)	560,080	37,506
Accumulated leave liability	<u>92,597</u>	<u>24,899</u>	<u>-</u>	<u>117,496</u>	<u>-</u>
Long-term liabilities	<u>\$ 4,002,959</u>	<u>\$ 10,020,434</u>	<u>\$ (940,817)</u>	<u>\$ 13,082,576</u>	<u>\$ 1,272,506</u>

Payments on general obligation 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, 2018, 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 \$705,000 to \$750,000 through May 1, 2021; remaining interest rates of 3.50% to 4.25%.	\$ 2,190,000
\$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%	9,475,000
\$600,000; 2014 School Technology and Bus Bonds; remaining installment of \$205,000 due May 1, 2019; interest rate of 2.15%.	205,000
\$600,000; 2016 School Technology and Bus Bonds; remaining installments due annually of \$45,000 to \$245,000 through May 1, 2021; interest rate of 2.00%.	<u>535,000</u>
Total bonds payable	12,405,000
Unamortized bond premium	560,080
Accumulated leave liability	<u>117,496</u>
Total long-term liabilities	<u><u>\$13,082,576</u></u>

Total annual requirements to amortize bonds outstanding as of June 30, 2018 are as follows:

Years Ending June 30,	Principal	Interest
2019	\$ 1,235,000	\$ 407,040
2020	1,330,000	414,324
2021	1,220,000	384,226
2022	225,000	340,700
2023	225,000	329,050
2024 - 2028	1,645,000	1,517,850
2029 - 2033	2,285,000	1,125,000
2034 - 2038	2,370,000	659,400
Thereafter	<u>1,870,000</u>	<u>180,400</u>
	<u><u>\$12,405,000</u></u>	<u><u>\$ 5,357,990</u></u>

Interest expense for the year ended June 30, 2018 was \$186,621, and interest paid for the year ended June 30, 2018 was \$132,328.

NOTES TO FINANCIAL STATEMENTS - Continued

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.

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 \$2,165,000 at June 30, 2018.

NOTE H - 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 I - 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	\$ 32,397	\$ 3,300
2010 Debt Retirement Fund	-	61
Other Governmental Funds		
Food Service Fund	-	14,031
2013-2014 Debt Retirement Fund	-	21
2016 Debt Retirement Fund	-	499
Infrastructure Fund	3,300	15,419
2016 Capital Projects Fund	-	2,366
	<u>\$ 35,697</u>	<u>\$ 35,697</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	10,000	-
2016 Capital Projects Fund	666	-
Infrastructure Fund	45	-
2014 Capital Projects Fund	-	666
Public Improvement Fund	-	45
	<u>\$ 10,711</u>	<u>\$ 10,711</u>

NOTE J - 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.

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.

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, 2017 will be amortized over a 20 year period for the 2017 fiscal year.

The schedule below summarizes pension contribution rates in effect for the Plan's fiscal year September 30, 2017:

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0-4.0%	19.03%
Member Investment Plan	3.0-7.0%	19.03%
Pension Plus	3.0-6.4%	18.40%
Defined Contribution	0.0%	15.27%

Required contributions to the pension plan from the School District were \$882,246 for the year ended September 30, 2017.

The School District's contributions to the MPSERS Defined Contribution Plan were \$13,934, for the year ended June 30, 2018, which is equal to the pension expense recognized by the School District for the year.

Post-Employment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS Plan discussed above.

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, 2018, the School District reported a liability of \$9,747,368 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2016. The 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, 2017, the School District's proportion was 0.03761393%, which was an increase of 0.00008013% from its proportion measured as of September 30, 2016.

For the year ended June 30, 2018, the School District recognized pension expense of \$1,191,682. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 84,711	\$ 47,828
Changes of assumptions	1,067,902	-
Net difference between projected and actual earnings on pension plan investments	-	465,988
Changes in proportion and differences between employer contributions and proportionate share of contributions	392,572	24,202
School District contributions subsequent to the measurement date	<u>463,796</u>	<u>-</u>
Total	<u>\$ 2,008,981</u>	<u>\$ 538,018</u>

From the above table, \$463,796 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

Year Ended September 30,	Amount
2018	\$ 358,928
2019	485,332
2020	182,020
2021	<u>(19,113)</u>
Total	<u>\$ 1,007,167</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Actuarial Assumptions

Projection 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:	3.5%
Investment Rate of Return	
MIP and Basic Plans (Non-Hybrid):	7.5%
Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5-12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.5188 for non-university employers
- Recognition period for assets is 5 years
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at 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, 2017, are summarized in the following table:

Investment Category	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.6 %
Alternative Investment Pools	18.0	8.7
International Equity Pools	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short-Term Investment Pools	2.0	(0.9)
	<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, 2017, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 13.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension 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 7.5% (7.0% for the Hybrid 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 (Non-Hybrid/Hybrid) (6.5% / 6.0%)	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) (7.5% / 7.0%)	1% Increase (Non-Hybrid-Hybrid) (8.5% / 8.0%)
<hr/>	<hr/>	<hr/>
\$ 12,697,579	\$ 9,747,368	\$ 7,263,479

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.

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

The School District reported \$60,168 payable to the plan at June 30, 2018 for legally required defined benefit and defined contribution plan contributions.

NOTE K - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. 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).

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.

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.

NOTES TO FINANCIAL STATEMENTS - Continued

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

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 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, 2016 valuation will be amortized over a 20-year period for the 2017 fiscal year.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2017.

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.00%	5.91%
Personal Healthcare Fund (PHF)	0.00%	5.69%

Required contributions to the OPEB plan from the School District were \$292,980 for the year ended September 30, 2017.

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

At June 30, 2018, the School District reported a liability of \$3,332,484 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 30, 2016. The 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, 2017, the School District's proportion was 0.03763192%, which equaled its proportion measured as of October 1, 2016.

NOTES TO FINANCIAL STATEMENTS - Continued

For the year ended June 30, 2018, the School District recognized OPEB expense of \$222,787. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 35,481
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	77,181
Changes in proportion and differences between School District contributions and proportionate share of contributions	-	512
School District contributions subsequent to the measurement date	<u>152,906</u>	<u>-</u>
Total	<u><u>\$ 152,906</u></u>	<u><u>\$ 113,174</u></u>

From the above table, \$152,906 contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2018	\$ (27,340)
2019	(27,340)
2020	(27,340)
2021	(27,340)
2022	<u>(3,814)</u>
Total	<u><u>\$ (113,174)</u></u>

Actuarial Assumptions

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

NOTES TO FINANCIAL STATEMENTS - Continued

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2016
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	7.5%
Projected Salary Increases:	3.5-12.3%, including wage inflation at 3.5%
Healthcare Cost Trend Rate:	7.5% Year 1 graded to 3.5% Year 12
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

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:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.4744 for non-university employers.
- Recognition period for assets in years is 5.0.
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report (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, 2017, are summarized in the following table:

Investment Category	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.6 %
Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short-Term Investment Pools	<u>2.0</u>	(0.9)
	<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, 2017, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 11.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that 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 7.5%, 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
\$ 3,903,302	\$ 3,332,484	\$ 2,848,038

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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
\$ 2,822,166	\$ 3,332,484	\$ 3,911,914

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2017 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan

The School District reported \$102,378 payable to the Plan at June 30, 2018 for the OPEB liability.

NOTE L - 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 have not been completed as of June 30, 2018. The remaining fund balance in the 2016 Capital Projects Fund as of June 30, 2018, was \$106,378.

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, 2018, \$302,019 has been expended to date, leaving a remaining capital acquisition commitment of approximately \$9,757,000. The Capital Projects Fund balance was \$9,695,214 at June 30, 2018. 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.

REQUIRED SUPPLEMENTARY INFORMATION

Leland Public School

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
Local and intermediate sources	\$ 3,870,389	\$ 3,976,876	\$ 3,717,866	\$ 106,487	\$ (259,010)
State revenues	1,351,886	1,439,326	1,468,843	87,440	29,517
Federal revenues	734,319	770,550	772,223	36,231	1,673
Other	<u>-</u>	<u>18,000</u>	<u>244,459</u>	<u>18,000</u>	<u>226,459</u>
Total revenues	<u>5,956,594</u>	<u>6,204,752</u>	<u>6,203,391</u>	<u>248,158</u>	<u>(1,361)</u>
Expenditures					
Instruction	3,820,858	4,018,095	3,972,270	(197,237)	45,825
Supporting Services	<u>2,347,797</u>	<u>2,352,017</u>	<u>2,363,679</u>	<u>(4,220)</u>	<u>(11,662)</u>
Total expenditures	<u>6,168,655</u>	<u>6,370,112</u>	<u>6,335,949</u>	<u>(201,457)</u>	<u>34,163</u>
REVENUES OVER (UNDER) EXPENDITURES	(212,061)	(165,360)	(132,558)	46,701	32,802
Other financing uses					
Operating transfers out	<u>(40,000)</u>	<u>(18,000)</u>	<u>(10,000)</u>	<u>22,000</u>	<u>8,000</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(252,061)	(183,360)	(142,558)	68,701	40,802
Fund balance, beginning of year	<u>1,002,104</u>	<u>1,002,104</u>	<u>1,002,104</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 750,043</u>	<u>\$ 818,744</u>	<u>\$ 859,546</u>	<u>\$ 68,701</u>	<u>\$ 40,802</u>

Leland Public School

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

Michigan Public School Employees Retirement Plan

	<u>9/30/2017</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	0.03761393 %	0.03753 %	0.03642 %	0.03388 %
School District's proportionate share of net pension liability	\$ 9,747,368	\$ 9,364,376	\$ 8,895,917	\$ 7,461,744
School District's covered-employee payroll	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-employee payroll	311.12 %	292.79 %	300.60 %	263.51 %
Plan fiduciary net position as a percentage of total pension liability	64.21 %	63.27 %	63.17 %	66.20 %

SCHEDULE OF SCHOOL DISTRICT'S PENSION CONTRIBUTIONS

Michigan Public School Employees Retirement Plan

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

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

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

Leland Public School

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

Michigan Public School Employees Retirement Plan

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

SCHEDULE OF SCHOOL DISTRICT'S OPEB CONTRIBUTIONS

Michigan Public School Employees Retirement Plan

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

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

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

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

Leland Public School

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2018

	Special Revenue Fund	Debt Service Funds			Capital Project Funds					Total Non-Major Governmental
		2013-2014 Debt Retirement	2016 Debt Retirement	Total	Infrastructure Fund	2014 Capital Projects Fund	2016 Capital Projects Fund	Public Improvement	Total	
	Food Service									
ASSETS										
Cash and cash equivalents	\$ 41,712	\$ 23,053	\$ 7,687	\$ 30,740	\$ 370,443	\$ -	\$ 108,744	\$ -	\$ 479,187	\$ 551,639
Due from other funds	-	-	-	-	3,300	-	-	-	3,300	3,300
Inventory	4,206	-	-	-	-	-	-	-	-	4,206
Total assets	<u>\$ 45,918</u>	<u>\$ 23,053</u>	<u>\$ 7,687</u>	<u>\$ 30,740</u>	<u>\$ 373,743</u>	<u>\$ -</u>	<u>\$ 108,744</u>	<u>\$ -</u>	<u>\$ 482,487</u>	<u>\$ 559,145</u>
LIABILITIES AND FUND BALANCES										
LIABILITIES										
Accounts payable and accrued expenditures	\$ 434	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 434
Unearned revenue	5,756	-	-	-	-	-	-	-	-	5,756
Due to other funds	14,031	21	499	520	15,419	-	2,366	-	17,785	32,336
Total liabilities	<u>20,221</u>	<u>21</u>	<u>499</u>	<u>520</u>	<u>15,419</u>	<u>-</u>	<u>2,366</u>	<u>-</u>	<u>17,785</u>	<u>38,526</u>
FUND BALANCES										
Nonspendable	4,206	-	-	-	-	-	-	-	-	4,206
Restricted										
Food Service	21,491	-	-	-	-	-	-	-	-	21,491
Debt retirement	-	23,032	7,188	30,220	-	-	-	-	-	30,220
Capital projects	-	-	-	-	358,324	-	106,378	-	464,702	464,702
Total fund balances	<u>25,697</u>	<u>23,032</u>	<u>7,188</u>	<u>30,220</u>	<u>358,324</u>	<u>-</u>	<u>106,378</u>	<u>-</u>	<u>464,702</u>	<u>520,619</u>
Total liabilities and fund balances	<u>\$ 45,918</u>	<u>\$ 23,053</u>	<u>\$ 7,687</u>	<u>\$ 30,740</u>	<u>\$ 373,743</u>	<u>\$ -</u>	<u>\$ 108,744</u>	<u>\$ -</u>	<u>\$ 482,487</u>	<u>\$ 559,145</u>

Leland Public School

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

Year Ended June 30, 2018

	Special Revenue Fund	Debt Service Funds			Capital Project Funds					Total Non-Major Governmental
		2013-2014 Debt Retirement	2016 Debt Retirement	Total	Infrastructure Fund	2014 Capital Projects Fund	2016 Capital Projects Fund	Public Improvement	Total	
	Food Service									
Revenues										
Property taxes	\$ -	\$ 222,523	\$ 51,450	\$273,973	\$ 168,324	\$ -	\$ -	\$ -	\$ 168,324	\$ 442,297
Interest	17	1,934	133	2,067	3,098	6	-	-	3,104	5,188
State revenues	9,629	-	-	-	-	-	-	-	-	9,629
Federal revenues	110,542	-	-	-	-	-	-	-	-	110,542
Other	137,558	-	-	-	75,012	-	2,749	-	77,761	215,319
Total revenues	257,746	224,457	51,583	276,040	246,434	6	2,749	-	249,189	782,975
Expenditures										
Food Service	236,676	-	-	-	-	-	-	-	-	236,676
Debt Service										
Principal	-	205,000	40,000	245,000	-	-	-	-	-	245,000
Interest	-	8,815	12,000	20,815	-	-	-	-	-	20,815
Other	30,361	338	56	394	1,086	-	-	-	1,086	31,841
Capital outlay	3,332	-	-	-	46,405	-	341,307	-	387,712	391,044
Total expenditures	270,369	214,153	52,056	266,209	47,491	-	341,307	-	388,798	925,376
REVENUES OVER (UNDER) EXPENDITURES	(12,623)	10,304	(473)	9,831	198,943	6	(338,558)	-	(139,609)	(142,401)
Other financing sources										
Operating transfers in	10,000	-	-	-	45	-	666	-	711	10,711
Operating transfers out	-	-	-	-	-	(666)	-	(45)	(711)	(711)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	(2,623)	10,304	(473)	9,831	198,988	(660)	(337,892)	(45)	(139,609)	(132,401)
Fund balance, beginning of year	28,320	12,728	7,661	20,389	159,336	660	444,270	45	604,311	653,020
Fund balance, end of year	<u>\$ 25,697</u>	<u>\$ 23,032</u>	<u>\$ 7,188</u>	<u>\$ 30,220</u>	<u>\$ 358,324</u>	<u>\$ -</u>	<u>\$ 106,378</u>	<u>\$ -</u>	<u>\$ 464,702</u>	<u>\$ 520,619</u>

FEDERAL PROGRAMS

Leland Public School

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2017	Prior Year Expenditures	Current Year Receipts	Adjustments	Current Year Expenditures	Accrued Revenue June 30, 2018
United States Department of Education								
Direct grants								
REAP Grant	84.358A	\$ 37,049	\$ -	\$ -	\$ 37,049	\$ -	\$ 37,049	\$ -
Title VII - Impact Aid	84.041	674,883	-	-	674,883	-	674,883	-
Passed through Michigan Department of Education								
Title I, Part A								
171530-1617	84.010	54,885	49,794	49,794	46,957	(2,837)	-	-
181530-1718	84.010	47,733	-	-	-	-	42,622	42,622
Title IIA, Part A								
170520-1617	84.367	19,770	17,227	17,227	18,660	1,433	-	-
180520-1718	84.367	10,856	-	-	-	-	9,954	9,954
Title IV, Part A SSAE								
180750-1718	84.424A	10,000	-	-	-	-	7,221	7,221
Total passed through Michigan Department of Education		143,244	67,021	67,021	65,617	(1,404)	59,797	59,797
Total U.S. Department of Education		855,176	67,021	67,021	777,549	(1,404)	771,729	59,797
United States Department of Agriculture								
Nutrition Cluster								
Passed Through Michigan Department of Education								
National School Lunch Program								
1960-Free and Reduced	10.555	67,114	-	-	67,114	-	67,114	-
USDA Entitlement Commodities	10.555	-	-	-	15,952	-	15,952	-
		67,114	-	-	83,066	-	83,066	-
1970-Breakfast	10.553	27,476	-	-	27,476	-	27,476	-
Total Nutrition Cluster		94,590	-	-	110,542	-	110,542	-
United States Department of Health and Human Services								
Passed Through Traverse Bay Area ISD								
Medicaid - School Based Services	93.778	494	-	-	494	-	494	-
Total Federal Financial Assistance		\$ 950,260	\$ 67,021	\$ 67,021	\$ 888,585	\$ (1,404)	\$ 882,765	\$ 59,797

-46- The accompanying notes are an integral part of this schedule.

Leland Public School

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2018

- 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

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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, 2018, 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 24, 2018.

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 2018-001 and 2018-002, 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*.

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 24, 2018



DENNIS, GARTLAND & NIERGARTH

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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, 2018. 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, 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, 2018.

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 24, 2018

Leland Public School

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2018

PRIOR YEAR

Findings 2017-001 and 2017-002 are repeated this year in Section 2 as Findings 2018-001 and 2018-002.

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 Governmental 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 Title VII - Impact Aid (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 Governmental Auditing Standards

Finding Number 2018-001

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

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the School District's management. The preparation of financial statements 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 as part of its external financial reporting process. Accordingly, the School District's ability to prepare financial statements 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 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 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 and notes 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 Governmental Auditing Standards - Continued

Finding Number 2018-002

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.