

Armada Area Schools
Financial Statements
June 30, 2018



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Armada Area Schools
Members of the Board of Education and Administration
June 30, 2018

Members of the Board of Education

Mr. Scott Kline	President
Ms. Cheryl Murray	Vice President
Ms. Judy Tobey	Secretary
Ms. Susan Nieman	Treasurer
Mr. Edward Genord	Trustee
Ms. Tami Seago - Fry	Trustee
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Administration

Mr. Michael Musary	Superintendent
Ms. Heather Urbanek	Business Supervisor
Mrs. Josie Meyers	Business Analyst



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Independent Auditors' Report

Management and the Board of Education
Armada Area Schools

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 Armada Area Schools, 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.

Auditors' Responsibility

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

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

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

Opinions

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

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2018, the School District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters:

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Schools' basic financial statements. The other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2018 on our consideration of the Armada Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Armada Area Schools' 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 Armada Area Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Flint, MI

September 24, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Armada Area Schools

Management's Discussion and Analysis

Armada Area Schools, a K-12 public school district located in Macomb and St. Clair Counties in Michigan, is in its 15th year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) and 4th year for GASB 68 with the enclosed financial statements.

The Management's discussion and Analysis, a requirement of GASB 34, is intended to be Armada Area Schools' discussion and analysis of the financial results for the fiscal year ended June 30, 2018. Generally Accepted Accounting Principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements.

Using this Annual Report

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

Financial Section

- Basic Financial Statements
 - District-wide Financial Statements
 - Fund Financial Statements
 - Fiduciary Fund
 - Notes to Financial Statements
- Required Supplemental Information
 - Budgetary Comparison Schedules
- Other Supplemental Information
 - Combining Balance Sheet Non-major Governmental Funds
 - Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Non-major Governmental Funds

Armada Area Schools

Management's Discussion and Analysis

Reporting the District as a Whole – District-wide Financial Statements

One of the most important questions asked about the District is, "As a whole, what is the District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the District's financial statements, report information on the District as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Armada Area District's net position – the difference between assets and liabilities, as reported in the statement of net position – as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results. Many non-financial factors, such as the quality of the education provided and the safety of the schools, must be considered to assess the overall health of the District.

The statement of net position and the statement of activities report the governmental activities for the District, which encompass all of the District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundations allowance revenue), and State and federal grants finance most of these activities.

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

The District's fund financial statements provide detailed information about the most significant funds, not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, the District establishes many other funds to help it control and manage money for particular purposes, such as the Food Services and Community Enrichment Funds. Funds are also established to show that it's meeting legal responsibilities for using certain taxes, grants, and other money, including the District's four Debt Funds.

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

Armada Area Schools

Management's Discussion and Analysis

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

The District acts as the trustee for its student activity funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net position. These activities are excluded from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Armada Area Schools

Management's Discussion and Analysis

The change in net position (see Table 2) of the District's governmental activities is discussed below. The District's net position was \$1,172,865 at June 30, 2018. Total net position factors all district related debt. The primary reason the net position being positive is due to revenue greater than expenditures. Capital assets, net of related debt, totaled \$ (2.2) million. This compares the original cost, less depreciation of the District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes.

The restricted amount of net position, \$ 0.81 million, was restricted for capital projects. The remaining amount of net position, \$ (31.9) million, was unrestricted. The \$ (31.9) million in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

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 years 2017 and 2018.

	2017 Governmental Activities	2018 Governmental Activities
Revenue		
Program revenue:		
Charges for services	\$ 642,078	\$ 660,619
Operating grants	1,771,288	2,106,352
General revenue:		
Property taxes	6,272,852	6,342,223
State Aid - unrestricted	12,131,873	12,133,789
Other	293,948	348,622
Total revenue	<u>21,112,039</u>	<u>21,591,605</u>
Functions/Program Expenses		
Instruction	10,984,319	11,618,344
Support services	6,685,591	6,949,905
Food services	320,568	358,647
Community services	225,648	254,434
Interest on long-term debt	1,329,083	1,237,410
Total expenses	<u>19,545,209</u>	<u>20,418,740</u>
Change in net position	1,566,830	1,172,865
Net position (deficit) – beginning, as restated	<u>(27,197,340)</u>	<u>(34,546,069)</u>
Net position (deficit) - ending	<u>\$ (25,630,510)</u>	<u>\$ (33,373,204)</u>

Armada Area Schools

Management's Discussion and Analysis

As reported in the statement of activities, the cost of all *governmental* activities this year was \$ 20.4 million. Certain activities were partially funded from those who benefited from the programs - \$ 06 million or by other governments and organizations that subsidized certain programs with grants and contributions - \$ 2.1 million. The remaining "public benefit" portion of governmental activities was funded with \$ 6.3 million in taxes, \$ 12.1 million in State foundation allowance, and with \$ 0.35 million other revenues, such as bond refunding, interest and general entitlements.

The District experienced an increase in net position of \$ 1,172,865. The assets increased primarily as a result of ongoing operations in the District.

As previously discussed, 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 a vast majority of District operating revenue resources, the Board of Education and Administration must annually evaluate the needs of the District and balance those needs with State-prescribed available unrestricted revenues.

The District's Funds

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

As the District completed this year, the governmental funds reported a combined fund balance of \$ 9.2 million; an increase of \$ 5 million from the prior year due to additional funds from the 2018 building and site bond issue and a decrease in in the technology bond due to spending down the funds. The changes by major and non-major funds are as follows:

	<u>General Fund</u>	<u>Other Non-Major Funds</u>	<u>Total</u>
Fund balances - Beginning of year	\$ 997,630	\$ 3,189,817	\$ 4,187,447
Increase (decrease)	<u>708,099</u>	<u>4,390,274</u>	<u>5,098,373</u>
Fund balances - End of year	<u>\$ 1,705,729</u>	<u>\$ 7,580,091</u>	<u>\$ 9,285,820</u>

Armada Area Schools

Management's Discussion and Analysis

In the General Fund, our principal operating fund, the fund balance increased by \$ 0.7 million from last year. Expenditure increases are a normal part of operations as a result of salary and benefit increases, increased costs for utilities, and other operating expenses. The district was able to function under budget in several expenditure areas including utilities, maintenance expenditures, and transportation expenses including bus fuel. The fund balance of the General Fund is available to fund costs related to allowable school operating purposes through the undesignated portion. The designated portion has specific projects and/or purposes.

The other major and non-major funds increased by \$ 4.3 million, which was primarily due to 4.7 million from the 2018 Building and Site Bond. The other non-major funds provide for services, (i.e. Food Service, Community Education), major renovations (Sinking Fund), and for the retirement of debt and for capital improvements had a \$0.3 million increase in fund equity. The goal of these funds is to offer programs for students and capital improvements not develop fund equity.

Armada Area Schools

Management's Discussion and Analysis

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The financial amendment to the budget was actually adopted just before year end. 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.

There were two revisions made to the original 2017-18 General Fund budget in February 2018 and June 2018. The original General Fund budget approved by the Board in June 2017 had an estimated fund equity net loss of \$ 0.1 million for June 30, 2018. The actual June 30, 2018 fund equity had a net gain of \$ 0.7 million with a total fund equity of \$ 1,705,729. The district operated on a minimal needs spending status most of the school year, which contributed to actual expenditures being lower than the final budget. The district also benefited financially from staff attrition, lower utility and transportation costs than prior years, and a higher student count than the original budget. However, the district continues to be concerned about State funding, the increased cost of health care, the retirement rate, future gasoline and utility rates. In addition, Federal funds are "drying up" and the district will not have access to as many federal grants as in years past.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2018, the District had \$ 36.8 million invested in a broad range of capital assets, including land, buildings, and furniture and equipment. The previous two years are listed below.

	2017	2018
Land, buildings and improvements	\$ 51,373,350	\$ 53,477,828
Furniture and equipment	11,323,903	11,522,294
Buses and other vehicles	1,670,391	1,670,391
Less: accumulated depreciation	<u>(27,964,813)</u>	<u>(29,772,890)</u>
Total capital assets	<u>\$ 36,402,831</u>	<u>\$ 36,897,623</u>

In November 2013, the community passed a 10-year renewal on a 0.8394 mill sinking fund, and a 10-year renewal on the Headlee 18 mills. Both of these renewal issues will benefit the school district.

Armada Area Schools

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the District's 2018 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2018 fiscal year is 10 percent of the February 2017 and 90 percent of the October 2017 student counts; this is the 8th year of the new formula. The 2018-19 budget was adopted in June 2018, based on a 67 student decrease - 1,770 total. Preliminary numbers show the District's actual count will be very close to the budgeted amount. The district made several cost cutting measure for the 2018-2019 school year to balance the budget. In addition, the district will continue a minimal spending philosophy as well as seek additional grants. The district has little control over revenue. Under State law, the District cannot assess additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operations. The district will amend the 2018-19 General Fund budget in the 2019 calendar year. With the slow moving economy, future student enrollment and funding will continue to be a major concern.

Since the District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue estimating conference to estimate revenues. If actual State revenues are less than their estimates, reduction to the per pupil funding allowance may be necessary. Early State funding projections indicate that there will be a modest increase in per pupil funding in the 2018-19 school year, but inflation will take up most of the increase. School districts in Michigan continue to feel the financial effect of the last four years where Lansing chose to "raid" the School Aid Fund to fund other areas of the State's general fund budget. The cost of health insurance and the increase in fuel cost will continue to be concerns. Local school communities, including Armada, will continue to work with the legislature to provide adequate funding to schools. Because of the lack of funding, Armada has made over \$ 7.1 million in budget cuts over the last 17 years. Most of the budget reductions for 2018-19 were due to personnel attrition and lower personnel replacement cost. Armada will have to make future budget reductions to balance the budget if the State funding trend continues.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office:

Armada Area Schools
74500 Burk Street
Armada, Michigan 48005-3314

BASIC FINANCIAL STATEMENTS

Armada Area Schools
Statement of Net Position
June 30, 2018

	<u>Governmental Activities</u>
Assets	
Cash	\$ 10,093,112
Accounts receivable	51,714
Due from other governmental units	2,465,551
Prepaid items	58,796
Capital assets not being depreciated	1,187,079
Capital assets - net of accumulated depreciation	<u>35,710,544</u>
 Total assets	 <u>49,566,796</u>
 Deferred outflows of resources	
Deferred amount relating to the net pension liability	5,706,232
Deferred amount relating to the net OPEB liability	532,834
Deferred amount on debt refunding	<u>692,785</u>
 Total deferred outflows of resources	 <u>6,931,851</u>
 Total assets and deferred outflows of resources	 <u>56,498,647</u>

See Accompanying Notes to the Financial Statements

Armada Area Schools
Statement of Net Position
June 30, 2018

	Governmental Activities
Liabilities	
Accounts payable	\$ 264,991
State aid anticipation note payable	1,442,121
Due to other governmental units	100,919
Payroll deductions and withholdings	2,421
Accrued expenditures	728,309
Accrued salaries payable	943,789
Unearned revenue	105,390
Long-term liabilities	
Debt due within one year	5,483,701
Debt due in more than one year	41,075,163
Net pension liability	27,131,837
Net OPEB liability	9,260,024
Total liabilities	86,538,665
Deferred inflows of resources	
Deferred amount relating to the net pension liability	3,020,130
Deferred amount relating to the net OPEB liability	313,056
Total deferred inflows of resources	3,333,186
Total liabilities and deferred inflows of resources	89,871,851
Net Position	
Net investment in capital assets	(2,278,863)
Restricted for	
Capital projects - sinking fund	813,312
Unrestricted (deficit)	(31,907,653)
Total net position	\$ (33,373,204)

See Accompanying Notes to the Financial Statements

Armada Area Schools
Statement of Activities
For the Year Ended June 30, 2018

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs				
Governmental activities				
Instruction	\$ 11,618,344	\$ 11,330	\$ 1,514,684	\$ (10,092,330)
Supporting services	6,949,905	121,685	433,247	(6,394,973)
Food services	358,647	167,436	158,421	(32,790)
Community services	254,434	360,168	-	105,734
Interest on long-term debt	1,237,410	-	-	(1,237,410)
Total governmental activities	\$ 20,418,740	\$ 660,619	\$ 2,106,352	(17,651,769)
General revenues				
				2,760,803
				3,211,091
				370,329
				12,133,789
				129,999
				218,623
Total general revenues				18,824,634
Change in net position				1,172,865
Net position - beginning, as restated				(34,546,069)
Net position - ending				\$ (33,373,204)

See Accompanying Notes to the Financial Statements

Armada Area Schools
Governmental Funds
Balance Sheet
June 30, 2018

	General Fund	Capital Projects Funds		Nonmajor Governmental Funds	Total Governmental Funds
		Tech Bond	2018 Building & Site Bond		
Assets					
Cash	\$ 2,314,310	\$ 1,929,243	\$ 4,900,856	\$ 948,703	\$ 10,093,112
Accounts receivable	49,685	-	-	2,029	51,714
Due from other funds	195,944	-	-	3,471	199,415
Due from other governmental units	2,465,551	-	-	-	2,465,551
Prepaid items	58,796	-	-	-	58,796
Total assets	\$ 5,084,286	\$ 1,929,243	\$ 4,900,856	\$ 954,203	\$ 12,868,588
Liabilities and Fund Balance					
Liabilities					
Accounts payable	\$ 264,697	\$ -	\$ -	\$ 294	\$ 264,991
State aid anticipation note payable	1,442,121	-	-	-	1,442,121
Due to other funds	-	-	185,282	14,133	199,415
Due to other governmental units	100,919	-	-	-	100,919
Payroll deductions and withholdings	2,421	-	-	-	2,421
Accrued expenditures	523,711	-	-	11	523,722
Accrued salaries payable	943,765	-	-	24	943,789
Unearned revenue	100,923	-	-	4,467	105,390
Total liabilities	3,378,557	-	185,282	18,929	3,582,768
Fund Balance					
Non-spendable:					
Prepaid items	58,796	-	-	-	58,796
Restricted for:					
Debt service	-	-	-	93,192	93,192
Capital projects	-	1,929,243	4,715,574	813,312	7,458,129
Food service	-	-	-	5,702	5,702
Assigned for:					
Community education	-	-	-	23,068	23,068
Budgeted excess expenditures over revenues	350,000	-	-	-	350,000
Unassigned	1,296,933	-	-	-	1,296,933
Total fund balance	1,705,729	1,929,243	4,715,574	935,274	9,285,820
Total liabilities and fund balances	\$ 5,084,286	\$ 1,929,243	\$ 4,900,856	\$ 954,203	\$ 12,868,588

See Accompanying Notes to the Financial Statements

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

Total fund balances for governmental funds	\$ 9,285,820
Total net position for governmental activities in the statement of net position is different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	1,187,079
Capital assets - net of accumulated depreciation	35,710,544
Deferred outflows (inflows) of resources	
Deferred inflows of resources resulting from net pension liability	(3,020,130)
Deferred outflows of resources resulting from net pension liability	5,706,232
Deferred inflows of resources resulting from net OPEB liability	(313,056)
Deferred outflows of resources resulting from net OPEB liability	532,834
Deferred outflows of resources resulting from debt refunding	692,785
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(204,587)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Net pension liability	(27,131,837)
Net OPEB liability	(9,260,024)
Compensated absences	(44,776)
Bonds payable	(46,374,018)
Other loans payable and liabilities	<u>(140,070)</u>
Net position of governmental activities	<u><u>\$ (33,373,204)</u></u>

Armada Area Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

	General Fund	Capital Projects Funds		Nonmajor Governmental Funds	Total Governmental Funds
		Tech Bond	2018 Building & Site Bond		
Revenues					
Local sources	\$ 3,315,530	\$ 27,878	\$ 151,175	\$ 3,856,881	\$ 7,351,464
State sources	13,351,408	-	-	10,279	13,361,687
Federal sources	461,364	-	-	148,142	609,506
Interdistrict sources	268,948	-	-	-	268,948
Total revenues	17,397,250	27,878	151,175	4,015,302	21,591,605
Expenditures					
Current					
Education					
Instruction	10,085,043	-	-	-	10,085,043
Supporting services	6,278,856	-	-	-	6,278,856
Food services	-	-	-	324,018	324,018
Community services	170,218	-	-	59,649	229,867
Capital outlay	35,020	292,698	1,925,601	264,775	2,518,094
Debt service					
Principal	108,336	-	-	2,150,000	2,258,336
Interest and other expenditures	8,208	-	-	1,280,810	1,289,018
Total expenditures	16,685,681	292,698	1,925,601	4,079,252	22,983,232
Excess (deficiency) of revenues over expenditures	711,569	(264,820)	(1,774,426)	(63,950)	(1,391,627)
Other Financing Sources (Uses)					
Proceeds from issuance of bonds	-	-	6,490,000	-	6,490,000
Transfers in	6,460	-	-	165,225	171,685
Transfers out	(9,930)	-	-	(161,755)	(171,685)
Total other financing sources (uses)	(3,470)	-	6,490,000	3,470	6,490,000
Net change in fund balance	708,099	(264,820)	4,715,574	(60,480)	5,098,373
Fund balance - beginning	997,630	2,194,063	-	995,754	4,187,447
Fund balance - ending	\$ 1,705,729	\$ 1,929,243	\$ 4,715,574	\$ 935,274	\$ 9,285,820

See Accompanying Notes to the Financial Statements

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

Net change in fund balances - Total governmental funds	\$ 5,098,373
Total change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(1,808,077)
Capital outlay	2,302,869
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in net pension liability	(921,005)
Net change in deferred inflows (outflows) of resources related to the net pension liability	806,658
The statement of net position reports the net OPEB liability and deferred outflows of resources and deferred inflows related to the net OPEB liability and OPEB expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in net OPEB liability	92,794
Net change in deferred inflows (outflows) of resources related to the net OPEB liability	(217,481)
Expenses are recorded when incurred in the statement of activities	
Interest	(92,802)
Compensated absences	(1,210)
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Debt issued	(6,490,000)
Repayments of long-term debt	2,258,336
Amortization of premiums	207,531
Amortization of amount on deferred amount on refunding	<u>(63,121)</u>
Change in net position of governmental activities	<u>\$ 1,172,865</u>

See Accompanying Notes to the Financial Statements

Armada Area Schools
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2018

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash	\$ 89,725	\$ 412,057
Liabilities		
Accounts payable	-	418
Due to agency fund activities	-	411,639
Total liabilities	-	\$ 412,057
Net Position		
Assets held for other scholarships	\$ 89,725	

See Accompanying Notes to the Financial Statements

Armada Area Schools
Fiduciary Funds
Private Purpose Trust Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2018

	Private Purpose Trust Funds
Additions	
Local sources	\$ 50
Interest and investment earnings	<u>189</u>
Total additions	239
Deductions	
Scholarships	<u>3,500</u>
Change in net position	(3,261)
Net position - beginning	<u>92,986</u>
Net position - ending	<u>\$ 89,725</u>

See Accompanying Notes to the Financial Statements

Armada Area Schools
Notes to the Financial Statements
June 30, 2018

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Armada Area Schools (District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies.

Reporting Entity

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

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net position resulting from current year activities.

Fund Financial Statements

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Armada Area Schools
Notes to the Financial Statements
June 30, 2018

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Tech Bond Fund– These funds are used for the purpose of erecting, furnishing and equipping additions to and remodeling, re-furnishing and re-equipping school buildings; acquiring and installing education technology improvements; acquiring school buses/acquiring land for site purposes; developing and improving sites; and to pay the cost of issuing the Bonds.

2018 Building & Site Fund – This Capital Project Fund is used for the purpose of capital improvements including erecting, furnishing and equipping additions to and remodeling, re-furnishing and re-equipping school buildings; acquiring and installing education technology improvements; acquiring school buses/acquiring land for site purposes; developing and improving sites; and to pay the cost of issuing the Bonds; and to pay the cost of issuing the Bonds.

Additionally, the School District reports the following fund types:

Capital Projects Funds –Sinking Funds are used to record the sinking fund property tax levy and other revenue and the disbursement of invoices specifically for acquiring new school sites, construction, additions, or major replacements to school buildings.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include Food Service and Community Education Funds. Operating deficits generated by these activities are generally covered by a transfer from the General Fund.

Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt. The debt service funds include the 2005, 2007, 2012, 2014, 2015 and 2017 Series A refunding issue and 2016 Bond.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Trust Funds are funds entrusted to the School District for scholarship awards and the principal and interest of the trust may be spent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Armada Area Schools
Notes to the Financial Statements
June 30, 2018

Assets, Liabilities and Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2018, the rates are as follows per \$ 1,000 of assessed value.

General Fund	
Non-principal residence exemption	18.0000
Commercial personal property	6.0000
Debt Service Funds	7.0000
Sinking Fund	0.8394

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District’s boundaries. All of the School District’s tax roll lies within the Counties of Macomb and St. Clair.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the Counties of Macomb and St. Clair and remitted to the School District by May 15.

Investments – Investments are stated at fair value. Certificates of deposit are stated at cost which approximates fair value.

Prepaid Items – Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they are therefore capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their acquisition value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$ 5,000. The School District defines building and site capital betterments as expenditures in excess of \$ 20,000 that extend the useful life of the capital asset at least five years. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. The School District does not depreciate capital assets in the year of acquisition. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Equipment and furniture	5-10 years
Buses and other vehicles	5-10 years

Deferred Outflows of Resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. Deferred amounts on bond refundings are included in the district-wide financials statements. The amounts represent the difference between the reacquisition price and the net carrying amount of the prior debt. For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension and OPEB plan earnings. This amount is the

Armada Area Schools
Notes to the Financial Statements
June 30, 2018

result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans. The School District also reported deferred outflows of resources for pension and OPEB contributions made after the measurement date. This amount will reduce the net pension and OPEB liabilities in the following year.

Compensated Absences – Sick days are earned by eligible employees at the rate depending on their classification. Certain classifications of employees may accumulate unused sick days up to a maximum amount, determined by their job classification. Retiring employees of certain job classifications, who meet certain age and years of service requirements are paid for accumulated sick days to a maximum number of days at a rate determined by their job category. There is no contractual provision for payment of unused vacation. They may be used for vacation only.

The liability for compensated absences reported in the district-wide financial statements consist of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments, and other employees who are expected to become eligible in the future to receive such payments upon termination, are included. The amount reported is salary related and includes no fringe benefits, since the amount of said benefits would be immaterial.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective

interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period.

In the School District's fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

Pension – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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.

Postemployment Benefits Other Than Pensions – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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.

Deferred Inflows of Resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. The School District reports deferred inflows of

Armada Area Schools
Notes to the Financial Statements
June 30, 2018

resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to MPSERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable - amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Education. The Board of Education has granted the Superintendent the authority to assign funds. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the School District's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2018, the School District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment*

Armada Area Schools
Notes to the Financial Statements
June 30, 2018

Benefits Other Than Pensions. Our opinions are not modified with respect to this matter.

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

Statement No. 85, *Omnibus 2017* addresses practice issues that were identified during implementation and application of certain GASB Statements. This statement covers issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which is effective for the fiscal year ending June 30, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The statement provides uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irremovable trust for the purpose of extinguishing that debt were acquired. Statement No. 86 is effective for the fiscal year ending June 30, 2018.

Upcoming Accounting and Reporting Changes

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement

obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 87, *Leases* increases the usefulness of the District's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the District's leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information

Armada Area Schools
Notes to the Financial Statements
June 30, 2018

that is disclosed in notes to the District's financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities districts should include when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

The School District is evaluating the impact that the above pronouncements will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. The Act requires expenditures to be budgeted on a functional basis. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the Act if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts within functions in any fund; however, any revisions that alter the total expenditures of any function must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations.

Excess of Expenditures over Appropriations

The School District did not have significant expenditure budget variances.

Armada Area Schools
Notes to the Financial Statements
June 30, 2018

Compliance – Bond Proceeds

The Capital Projects Funds includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, management believes the School District has complied, in all material respects, with the applicable provisions of Section 1351a of the Revised School Code. The following is a summary of the revenue and expenditures in the Tech Bond and 2018 Building and Site Bond from the inception of the funds through the current fiscal year:

	Tech Bond	2018 Building & Site Bond
Revenues	\$ 4,305,645	\$ 6,641,175
Expenditures	2,376,402	1,925,601

Compliance Sinking Funds

The Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, management believes the School District has complied, in all material respects, with the applicable provisions of § 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 2004-4.

Note 3 - Deposits and Investments

The School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 10,093,112	\$ 501,782	\$ 10,594,894

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

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 741,933
Investments in securities, mutual funds, and similar vehicles	9,852,166
Petty cash and cash on hand	795
 Total	 \$ 10,594,894

Interest rate risk – The School District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

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

Concentration of credit risk – The School District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year end, \$ 11,805,180 of the School District's bank balance of \$ 12,115,204 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Armada Area Schools
Notes to the Financial Statements
June 30, 2018

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of year end, none of the School District’s investments were exposed to custodial credit risk.

Note 4 - Fair Value Measurements

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

The School District has the following recurring fair value measurements as of June 30, 2018:

Investment	Fair Value	Maturities	Rating	Rating Organization
Michigan Liquid Asset Fund	<u>\$ 9,852,166</u>	6 mos. Avg.	AAAm	S & P

• Amounts invested in MILAF + Portfolio of \$ 9,852,166 million. The MILAF + Portfolio is not registered under Rule 2a-7 under the Investment Company Act of 1940. The money market securities are valued using amortized cost, which generally approximates the current fair value of the security. However, the value is not obtained from a quoted price in an active market. (Level 2 inputs)

Note 5 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,187,079	\$ -	\$ -	\$ 1,187,079
Capital assets being depreciated				
Buildings and additions	48,326,031	1,490,178	-	49,816,209
Land improvements	1,860,240	614,300	-	2,474,540
Equipment and furniture	11,323,903	198,391	-	11,522,294
Buses and other vehicles	1,670,391	-	-	1,670,391
Total capital assets being depreciated	<u>63,180,565</u>	<u>2,302,869</u>	<u>-</u>	<u>65,483,434</u>
Less accumulated depreciation for				
Buildings and additions	16,211,344	72,002	-	16,283,346
Land improvements	1,236,402	943,953	-	2,180,355
Equipment and furniture	9,597,435	679,807	-	10,277,242
Buses and other vehicles	919,632	112,315	-	1,031,947
Total accumulated depreciation	<u>27,964,813</u>	<u>1,808,077</u>	<u>-</u>	<u>29,772,890</u>
Net capital assets being depreciated	<u>35,215,752</u>	<u>494,792</u>	<u>-</u>	<u>35,710,544</u>
Net capital assets	<u>\$ 36,402,831</u>	<u>\$ 494,792</u>	<u>\$ -</u>	<u>\$ 36,897,623</u>

Armada Area Schools
Notes to the Financial Statements
June 30, 2018

Depreciation expense was charged to activities of the School District as follows:

Governmental Activities

Instruction	\$ 1,077,832
Support services	671,049
Food services	34,629
Community services	<u>24,567</u>
 Total governmental activities	 <u><u>\$ 1,808,077</u></u>

Note 6 - Interfund Receivable and Payable and Transfers

Individual interfund receivable and payable balances at year end were:

<u>Due From Fund</u>	<u>Due to Fund</u>	<u>Amount</u>
Nonmajor Funds	General Fund	\$ 10,662
Nonmajor Funds	Nonmajor Funds	3,471
2018 Building & Site Fund	General Fund	<u>185,282</u>
		 <u><u>\$ 199,415</u></u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers were made during the year, between the General Fund and the Food Service Fund totaling \$ 3,470 and between the Debt Service Funds totaling \$161,755 and general fund of \$ 6,460. These transfers were made to cover the costs of the District's programs that were in excess of revenues generated from those activities and to make debt payments.

Note 7 - Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue are as follows:

	<u>Unearned</u>
Grant and categorical aid payments received prior to meeting all eligibility requirements	\$ 62,545
Tuition	20,929
Other	<u>21,916</u>
Total	<u><u>\$ 105,390</u></u>

Note 8 - Leases

Operating Leases

The School District leases copiers with noncancelable operating leases. Total costs for such leases were \$ 34,767 for the year. During the year one copier lease was paid off. The future minimum lease payments for these leases are as follows:

Year ending June 30,	
2019	\$ 1,509
2020	<u>1,054</u>
Total	<u><u>\$ 2,563</u></u>

Note 9 - State Aid Anticipation Note

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th.

Armada Area Schools
Notes to the Financial Statements
June 30, 2018

Short-term debt activity for the year was as follows:

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	\$ 1,499,173	\$ 2,400,000	\$ 2,457,052	\$ 1,442,121

The state aid anticipation note agreement includes an irrevocable set-aside of \$ 971,142 at year end that is considered defeased debt and not included in the ending balance.

Note 10 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences and capital leases.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Government obligation bonds	\$ 40,150,000	\$ 6,490,000	\$ 2,150,000	\$ 44,490,000	\$ 5,400,000
Unamortized bond premium	2,091,549	-	207,531	1,884,018	-
Accreted Interest- SBLF	1,500	-	1,500	-	-
Bus capital lease	248,406	-	108,336	140,070	71,701
Compensated absences	43,566	13,754	12,544	44,776	12,000
Total	\$ 42,535,021	\$ 6,503,754	\$ 2,479,911	\$ 46,558,864	\$ 5,483,701

For governmental activities, compensated absences and bus capital leases are primarily liquidated by the General Fund.

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General obligation bonds payable at year end, consist of the following:

\$ 11,570,000 refunding serial bonds, issued June 2014, due in annual installments of \$ 820,000 to \$ 1,350,000 through May 1, 2024; interest at 4.00% to 5.00%	\$ 8,925,000
\$ 3,750,000 refunding serial bonds, issued February 2015, due in annual installments of \$ 705,000 to \$ 780,000 through May 1, 2022; interest at 2.00% to 5.00%	3,045,000
\$ 4,100,000 technology bonds, issued March 2016, due in annual installments of \$ 300,000 to \$ 700,000 through May 1, 2023; interest at 2.10%	3,290,000
\$ 6,925,000 refunding serial bonds, issued March 2017, due in annual installments of \$ 45,000 to \$ 1,630,000 through May 1, 2030; interest at 2.00% - 3.00%	6,925,000
\$ 15,815,000 refunding serial bonds, issued May 2017, due in annual installments of \$ 2,905,000 to \$ 3,885,000 through May 1, 2030; interest at 1.810% to 3.036%	15,815,000
\$ 6,490,000 building & site bonds, issued May 2018, due in annual installments of \$ 250,000 to \$ 1,110,000 through May 1, 2032; interest at 3.00% to 5.00%	<u>6,490,000</u>
Total general obligation bonded debt	<u><u>\$ 44,490,000</u></u>

Future principal and interest requirements for bonded debt are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2019	\$ 5,400,000	\$ 1,494,389	\$ 6,894,389
2020	5,590,000	1,302,920	6,892,920
2021	5,760,000	1,131,680	6,891,680
2022	5,950,000	943,028	6,893,028
2023	6,115,000	776,498	6,891,498
2024 - 2028	9,255,000	2,208,350	11,463,350
2029 - 2033	6,420,000	472,000	6,892,000
Total	<u>\$ 44,490,000</u>	<u>\$ 8,328,865</u>	<u>\$ 52,818,865</u>

The general obligation bonds are payable from the Debt Service Funds. As of year end, the fund had a fund balance of \$ 93,192 to pay this debt. Future debt and interest will be payable from future tax levies.

School Bus Installments

School bus installment purchase payable consist of the following:

Date		Original Amount	Due Date	Interest Rate
June 30, 2014	\$	189,432	June 30, 2018	2.88%
June 29, 2015	\$	190,286	June 29, 2019	2.10%
June 30, 2017	\$	168,189	June 30, 2021	3.49%

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Notes to the Financial Statements
June 30, 2018

Future principal and interest requirements are as follows:

Year ending June 30,	Principal	Interest	Total
2019	\$ 71,701	\$ 4,775	\$ 76,476
2020	33,598	2,386	35,984
2021	34,771	1,214	35,985
Total	<u>\$ 140,070</u>	<u>\$ 8,375</u>	<u>\$ 148,445</u>

The assets acquired through capital leases are as follows:

<u>Assets</u>	
Buses	\$ 1,670,391
Less accumulated depreciation	<u>1,031,947</u>
Total	<u>\$ 638,444</u>

Compensated Absences

Accrued compensated absences at year end, consist of \$ 44,776 in accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Deferred Amount on Refunding

The District had advanced refundings whose differences resulted in deferred outflows of resources of \$ 495,580 and \$ 562,775, respectively, and are also being charged to activities through fiscal year 2030. The total net deferred amount on refunding is \$ 692,785, which is reported on the statement of net position as a deferred outflow of resources.

Defeased Debt

In prior years, the School District has defeased various bonds issued by creating separate irrevocable trust funds. New debt has been issued and the net proceeds of each refunding were placed in separate special escrow accounts and invested in securities of the U.S. Government and its agencies. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded bonds are considered to be defeased. Accordingly, the trust account assets and liability for the defeased bonds are not included in the School District's financial statements.

The final payment date is May 1, 2017 for the 1997 issue for the partial refunding that occurred in 2002 and again in 2012, and May 1, 2022 for the 1997 issue for the partial refunding that occurred in 2005. During 2013, a portion of the 2005 bonds were refunded. During 2015, the 2005 Refunding debt was refunded. Final payment for these refunded bonds is May 1, 2026. During 2017, the 2007 debt was refunded. Final payment for these refunded bonds is May 2030.

As of year end, the amount of defeased debt outstanding but removed from the School District's financial statements is as follows:

2005 Building and Site refunded in 2014	<u>\$ 9,860,000</u>
-----------------------------------------	---------------------

Interest expenditures for the fiscal year in the General Fund and Debt Service Funds were \$ 8,208 and \$ 1,280,810, respectively.

Armada Area Schools
Notes to the Financial Statements
June 30, 2018

Note 11 - Risk Management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health and vision claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District. The District had no unemployment compensation expense for the year ended June 30, 2018. No provision has been made for possible future claims.

Note 12 - Pension Plan

Plan Description

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

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision

coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

The System's financial statements are available on the ORS website 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 percent to 1.50 percent. 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.

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June 30, 2018

Contributions

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

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

The schedule below summarizes pension contribution rates in effect for fiscal year 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 \$2,455,736 for the year ending September 30, 2017.

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 \$ 27,131,837 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was .1047 percent, which was a decrease of .0004 percent from its proportion measured as of September 30, 2016. At September 30, 2017, the total pension expense for the School District was \$ 2,582,417.

Armada Area Schools
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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	Total
Difference between expected and actual experience	\$ 235,794	\$ (133,130)	\$ 102,664
Changes of assumptions	2,972,508	-	2,972,508
Net difference between projected and actual earnings on pension plan investments	-	(1,297,080)	(1,297,080)
Changes in proportion and differences between the School District contributions and proportionate share of contributions	144,334	(517,968)	(373,634)
Total to be recognized in future	3,352,636	(1,948,178)	1,404,458
School District contributions subsequent to the measurement date	2,353,596	(1,071,952)	1,281,644
Total	\$ 5,706,232	\$ (3,020,130)	\$ 2,686,102

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

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future Pension Expenses)	
	2018
	\$ 264,461
	789,391
	417,732
	(67,126)
	\$ 1,404,458

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2016
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%

Armada Area Schools
Notes to the Financial Statements
June 30, 2018

- 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.

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

Recognition period for assets in years is 5.0000

Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets

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:

Asset Class	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	2.0	(0.9)
	100.0%	

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

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension 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.

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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 higher:

	Current Single Discount Rate	
1% Decrease (Non-Hybrid/Hybrid)*	Assumption (Non-Hybrid/Hybrid)*	1% Increase (Non-Hybrid/Hybrid)*
6.5% / 6.0%	7.5% / 7.0%	8.5% / 8.0%
<u>\$ 35,343,760</u>	<u>\$ 27,131,837</u>	<u>\$ 20,217,922</u>

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

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 CAFR, available on the ORS website at www.michigan.gov/orsschools.

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

There were no significant payables to the pension plan that are not ordinary accruals to the School District.

Note 13 - Post-employment Benefits Other Than Pensions (OPEB)

Plan Description

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

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

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

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

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement

healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

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.

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

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.0%	5.91%
Personal Healthcare Fund (PHF)	0.0%	5.69%

Required contributions to the OPEB plan from the School District were \$ 814,109 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 \$ 9,260,024 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was .1046 percent, which was unchanged from its proportion measured as of September 30, 2016. At September 30, 2017, the total OPEB expense for the School District was \$ 619,550.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Difference between expected and actual experience	\$ -	\$ (98,592)	\$ (98,592)
Net difference between projected and actual earnings on OPEB plan investments	-	(214,464)	(214,464)
Changes in proportion and differences between the School District contributions and proportionate share of contributions	754	-	754
Total to be recognized in future	754	(313,056)	(312,302)
School District contributions subsequent to the measurement date	532,080	-	532,080
Total	\$ 532,834	\$ (313,056)	\$ 219,778

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

Deferred (Inflow) and Deferred Outflow of Resources by Year
 (To Be Recognized in Future OPEB Expenses)

2018	\$	(75,482)	
2019		(75,482)	
2020		(75,482)	
2021		(75,482)	
2022		(10,374)	
	<u>\$</u>	<u>(312,302)</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.

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.

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.

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Notes to the Financial Statements
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Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.4744

Recognition period for assets in years is 5.0000

Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets

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:

Asset Class	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	2.0	(0.9)
	<u>100.0%</u>	

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

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on 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.

Armada Area Schools
Notes to the Financial Statements
June 30, 2018

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 higher:

1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
\$ 10,846,165	\$ 9,260,024	\$ 7,913,888

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 assumed trend rates, as well as what the 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 Healthcare Cost Trend Rate 7.5%	1% Increase 8.5%
\$ 7,841,996	\$ 9,260,024	\$ 10,870,097

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

There were no significant payables to the OPEB plan that are not ordinary accruals to the School District.

Note 14 - Tax Abatements

School Districts may receive reduced property tax revenues as a result of Industrial Facilities Tax exemptions and Brownfield Redevelopment Agreements granted by the various municipalities within the School District boundaries. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties.

For the fiscal year ended June 30, 2018, the School District's property tax revenues were reduced by \$ 0 under these programs.

There are no significant abatements made by the School District.

Note 15 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Armada Area Schools
Notes to the Financial Statements
June 30, 2018

Note 16 - Adoption of New Accounting Standards

As indicated in Note 1, the School District has adopted Government Accounting Standards Board Statement 75. This required the School District to record their proportionate share of the net OPEB liability and OPEB expense. Previously, these amounts were not recorded on the School District's statements. The standards require this change to be applied retroactively. The impact of this change is to reduce beginning net position in the statement of activities as of July 1, 2017 by \$ 8,915,559, restating it from (\$ 25,630,510) to (\$ 34,546,069).

REQUIRED SUPPLEMENTARY INFORMATION

Armada Area Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Revenues				
Local sources	\$ 3,072,864	\$ 3,370,287	\$ 3,315,530	\$ (54,757)
State sources	13,069,878	13,356,522	13,351,408	(5,114)
Federal sources	423,011	469,244	461,364	(7,880)
Interdistrict sources	268,247	268,947	268,948	1
Total revenues	<u>16,834,000</u>	<u>17,465,000</u>	<u>17,397,250</u>	<u>(67,750)</u>
Expenditures				
Instruction				
Basic programs	8,372,191	8,808,607	8,607,247	(201,360)
Added needs	1,584,158	1,540,034	1,477,796	(62,238)
Supporting services				
Pupil	859,722	923,038	834,487	(88,551)
Instructional staff	634,690	647,399	606,701	(40,698)
General administration	507,000	507,000	477,797	(29,203)
School administration	1,242,016	1,239,235	1,193,919	(45,316)
Business	709,480	706,711	685,619	(21,092)
Operations and maintenance	1,342,726	1,379,553	1,231,557	(147,996)
Pupil transportation services	743,080	745,590	690,362	(55,228)
Central	242,645	242,503	236,510	(5,993)
Athletic activities	336,521	335,539	321,904	(13,635)
Community services	149,666	172,249	170,218	(2,031)
Capital outlay	84,421	88,898	35,020	(53,878)
Debt service				
Principal	108,337	108,337	108,336	(1)
Interest and fiscal charges	8,208	8,208	8,208	-
Total expenditures	<u>16,924,861</u>	<u>17,452,901</u>	<u>16,685,681</u>	<u>(767,220)</u>
Excess (deficiency) of revenues over expenditures	<u>(90,861)</u>	<u>12,099</u>	<u>711,569</u>	<u>699,470</u>

Armada Area Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Other Financing Sources (Uses)				
Transfers in	-	-	6,460	6,460
Transfers out	(9,139)	(10,099)	(9,930)	169
Total other financing sources (uses)	(9,139)	(10,099)	(3,470)	6,629
Net change in fund balance	(100,000)	2,000	708,099	706,099
Fund balance - beginning	997,630	997,630	997,630	-
Fund balance - ending	<u>\$ 897,630</u>	<u>\$ 999,630</u>	<u>\$ 1,705,729</u>	<u>\$ 706,099</u>

Armada Area Schools
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th of Each June Fiscal Year)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
A. Reporting unit's proportion of net pension liability (%)	0.10%	0.11%	0.10%	0.11%						
B. Reporting unit's proportionate share of net pension liability	\$ 27,131,837	\$ 26,210,832	\$ 25,441,198	\$ 24,055,419						
C. Reporting unit's covered-employee payroll	\$ 8,713,411	\$ 8,887,203	\$ 8,555,666	\$ 9,440,221						
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	311.38%	294.93%	297.36%	254.82%						
E. Plan fiduciary net position as a percentage of total pension liability	64.21%	63.27%	63.17%	66.20%						

Notes:

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2017.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2017.

Armada Area Schools
Required Supplementary Information
Schedule of the School District's Pension Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

		For the Years Ended June 30,									
		2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A.	Statutorily required contributions	\$ 2,648,039	\$ 2,359,107	\$ 2,009,389	\$ 1,870,100						
B.	Contributions in relation to statutorily required contributions	<u>2,648,039</u>	<u>2,359,107</u>	<u>2,009,389</u>	<u>1,870,100</u>						
C.	Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>						
D.	Reporting unit's covered- employee payroll	\$ 8,871,582	\$ 9,012,744	\$ 8,857,974	\$ 8,950,264						
E.	Contributions as a percentage of covered-employee payroll	29.85%	26.18%	22.68%	20.89%						

Armada Area Schools
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net OPEB Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th of Each June Fiscal Year)

		<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
A.	Reporting unit's proportion of net OPEB liability (%)	0.10%									
B.	Reporting unit's proportionate share of net OPEB liability	\$ 9,260,024									
C.	Reporting unit's covered-employee payroll	\$ 8,713,411									
D.	Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	106.27%									
E.	Plan fiduciary net position as a percentage of total OPEB liability	36.39%									

Notes:

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2017.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2017.

Armada Area Schools
Required Supplementary Information
Schedule of the School District's OPEB Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

		For the Years Ended June 30,									
		2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A.	Statutorily required contributions	\$ 625,048									
B.	Contributions in relation to statutorily required contributions	<u>625,048</u>									
C.	Contribution deficiency (excess)	<u>\$ -</u>									
D.	Reporting unit's covered- employee payroll	\$ 8,871,582									
E.	Contributions as a percentage of covered-employee payroll	7.05%									

OTHER SUPPLEMENTARY INFORMATION

**Armada Area Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2018**

	Special Revenue Funds		Debt Service Funds					Capital Projects Fund	Total Nonmajor Governmental Funds	
	Community Education	Food Service	2005 Refunding	2014 Refunding	2015 Refunding	2016 Bond	2017 Series A	2017 Series B	Sinking Fund	
Assets										
Cash	\$ 34,109	\$ 11,267	\$ 6,443	\$ 31,753	\$ 17,879	\$ 12,245	\$ 24,750	\$ 122	\$ 810,135	\$ 948,703
Accounts receivable	-	2,029	-	-	-	-	-	-	-	2,029
Due from other funds	-	-	-	-	-	-	-	-	3,471	3,471
Total assets	\$ 34,109	\$ 13,296	\$ 6,443	\$ 31,753	\$ 17,879	\$ 12,245	\$ 24,750	\$ 122	\$ 813,606	\$ 954,203
Liabilities and Fund Balance										
Liabilities										
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 294	\$ 294
Due to other funds	6,574	7,559	-	-	-	-	-	-	-	14,133
Accrued expenditures	-	11	-	-	-	-	-	-	-	11
Accrued salaries payable	-	24	-	-	-	-	-	-	-	24
Unearned revenue	4,467	-	-	-	-	-	-	-	-	4,467
Total liabilities	11,041	7,594	-	-	-	-	-	-	294	18,929
Fund Balance										
Restricted for:										
Debt service	-	-	6,443	31,753	17,879	12,245	24,750	122	-	93,192
Capital projects	-	-	-	-	-	-	-	-	813,312	813,312
Food service	-	5,702	-	-	-	-	-	-	-	5,702
Assigned for:										
Community education	23,068	-	-	-	-	-	-	-	-	23,068
Total fund balance	23,068	5,702	6,443	31,753	17,879	12,245	24,750	122	813,312	935,274
Total liabilities and fund balance	\$ 34,109	\$ 13,296	\$ 6,443	\$ 31,753	\$ 17,879	\$ 12,245	\$ 24,750	\$ 122	\$ 813,606	\$ 954,203

Armada Area Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

	Special Revenue Funds		Debt Service Funds							Capital Projects Fund	Total Nonmajor Governmental Funds	
	Community Education	Food Service	2007 Refunding	2005 Refunding	2012 Refunding	2014 Refunding	2015 Refunding	2016 Bond	2017 Series A	2017 Series B	Sinking Fund	
Revenues												
Local sources	\$ 70,516	\$ 167,443	\$ 1	\$ 303,296	\$ -	\$ 1,272,467	\$ 820,239	\$ 553,319	\$ 276,220	\$ 1	\$ 393,379	\$ 3,856,881
State sources	-	10,279	-	-	-	-	-	-	-	-	-	10,279
Federal sources	-	148,142	-	-	-	-	-	-	-	-	-	148,142
Total revenues	<u>70,516</u>	<u>325,864</u>	<u>1</u>	<u>303,296</u>	<u>-</u>	<u>1,272,467</u>	<u>820,239</u>	<u>553,319</u>	<u>276,220</u>	<u>1</u>	<u>393,379</u>	<u>4,015,302</u>
Expenditures												
Current												
Education												
Food services	-	324,018	-	-	-	-	-	-	-	-	-	324,018
Community services	59,649	-	-	-	-	-	-	-	-	-	-	59,649
Capital outlay	-	-	-	-	-	-	-	-	-	-	264,775	264,775
Debt service												
Principal	-	-	-	-	-	935,000	705,000	510,000	-	-	-	2,150,000
Interest and other expenditures	-	-	-	440,748	-	283,007	164,662	80,349	312,044	-	-	1,280,810
Total expenditures	<u>59,649</u>	<u>324,018</u>	<u>-</u>	<u>440,748</u>	<u>-</u>	<u>1,218,007</u>	<u>869,662</u>	<u>590,349</u>	<u>312,044</u>	<u>-</u>	<u>264,775</u>	<u>4,079,252</u>
Excess (deficiency) of revenues over expenditures	<u>10,867</u>	<u>1,846</u>	<u>1</u>	<u>(137,452)</u>	<u>-</u>	<u>54,460</u>	<u>(49,423)</u>	<u>(37,030)</u>	<u>(35,824)</u>	<u>1</u>	<u>128,604</u>	<u>(63,950)</u>
Other Financing Sources (Uses)												
Transfers in	-	3,470	-	143,895	-	-	14,645	3,215	-	-	-	165,225
Transfers out	-	-	(1)	-	(16,576)	(141,964)	-	-	(3,214)	-	-	(161,755)
Total other financing sources	<u>-</u>	<u>3,470</u>	<u>(1)</u>	<u>143,895</u>	<u>(16,576)</u>	<u>(141,964)</u>	<u>14,645</u>	<u>3,215</u>	<u>(3,214)</u>	<u>-</u>	<u>-</u>	<u>3,470</u>
Net change in fund balance	10,867	5,316	-	6,443	(16,576)	(87,504)	(34,778)	(33,815)	(39,038)	1	128,604	(60,480)
Fund balance - beginning	<u>12,201</u>	<u>386</u>	<u>-</u>	<u>-</u>	<u>16,576</u>	<u>119,257</u>	<u>52,657</u>	<u>46,060</u>	<u>63,788</u>	<u>121</u>	<u>684,708</u>	<u>995,754</u>
Fund balance - ending	<u>\$ 23,068</u>	<u>\$ 5,702</u>	<u>\$ -</u>	<u>\$ 6,443</u>	<u>\$ -</u>	<u>\$ 31,753</u>	<u>\$ 17,879</u>	<u>\$ 12,245</u>	<u>\$ 24,750</u>	<u>\$ 122</u>	<u>\$ 813,312</u>	<u>\$ 935,274</u>

Armada Area Schools
Other Supplementary Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2018

	Due to (From) Student Groups June 30, 2017	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2018
<u>Elementary Activity Funds</u>				
First Grade Field Trip	\$ 280	\$ 3,181	\$ 3,312	\$ 149
Kindergarten Field Trip	222	3,792	3,580	434
Second Grade Field Trip	708	1,539	1,746	501
Book Club	9	-	-	9
Book Fair / Accelerated Readers	3,539	11,256	12,731	2,064
Drug Alliance	13,390	41,579	41,213	13,756
Elementary Miscellaneous	5,028	9,515	9,093	5,450
Fifth Grade Field Trip	73	6,476	6,121	428
Fourth Grade Field Trip	126	7,348	7,165	309
Four County Grants	-	317	317	-
Garden Club	629	5,825	3,648	2,806
Grants	175	150	-	325
Individual Room Account	1,004	-	-	1,004
Later Elementary Internal Reserve Fund	804	1,446	1,202	1,048
Library Donations	872	-	802	70
Miscellaneous	1,630	1,686	1,151	2,165
Robotics Program	1,354	1,550	739	2,165
Safety Patrol	508	5,676	4,652	1,532
Ski Club	1,348	-	-	1,348
Student Council	132	583	696	19
Student Enhancement	8,210	2,000	2,100	8,110
Super Kids Day	4,473	10,245	10,544	4,174
Technology	1,160	-	-	1,160
Technology Club	92	-	-	92
Third Grade Field Trip	1,673	3,118	2,848	1,943
Yearbook	9,458	7,739	7,106	10,091
	<u>56,897</u>	<u>125,021</u>	<u>120,766</u>	<u>61,152</u>

Armada Area Schools
Other Supplementary Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2018

	Due to (From) Student Groups June 30, 2017	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2018
<hr/>				
<u>Middle School Activity Funds</u>				
Art	251	222	-	473
Band	267	12,455	12,303	419
Cedar Point	4,631	5,949	5,662	4,918
Choir	1,256	2,148	1,099	2,305
Digital Media Arts	217	223	220	220
Eighth Grade	967	4,290	4,531	726
Foreign Language	290	-	53	237
Language Arts	115	221	-	336
Library	5,442	1,493	1,493	5,442
Math	564	142	-	706
Middle School	18,270	19,079	15,174	22,175
Middle School Internal Reserve Fund	1,048	30	-	1,078
Middle School L.C.C.E.	267	-	-	267
Middle School Robotics Program	1,000	-	-	1,000
Middle School Tech Lab	1,054	-	340	714
National JR Honor Society	-	596	-	596
Physical Education	489	244	-	733
SCADDS	217	-	-	217
Science	228	2,189	1,668	749
Seventh Grade	887	5,456	5,133	1,210
Sixth Grade	987	4,960	5,343	604
Social Studies	171	221	40	352
Student Council	2,956	787	1,353	2,390
Yearbook	8,873	1,176	-	10,049
	<hr/> 50,447	<hr/> 61,881	<hr/> 54,412	<hr/> 57,916

Armada Area Schools
Other Supplementary Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2018

	Due to (From) Student Groups June 30, 2017	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2018
<u>High School Activity Funds</u>				
A.H.S. Senior Night	2,933	47,611	44,388	6,156
AP Exams	8,681	28,660	30,615	6,726
Athletics Activity	2,091	11,495	9,364	4,222
Auto Shop	98	-	-	98
Band	1,903	2,227	1,218	2,912
Boys Basketball	10,171	13,874	15,537	8,508
Boys Golf	39	8	8	39
Building Trades	1,017	4,482	4,381	1,118
Cheerleaders	9,644	22,704	27,652	4,696
Choir	11,399	13,517	20,479	4,437
Class of 2005	25	-	-	25
Class of 2006	1,056	-	-	1,056
Class of 2007	2,074	-	1,859	215
Class of 2008	1,073	-	1,073	-
Class of 2009	2,177	-	-	2,177
Class of 2010	2,985	-	-	2,985
Class of 2011	325	-	-	325
Class of 2012	2,257	-	-	2,257
Class of 2013	1,005	-	-	1,005
Class of 2014	3,081	-	-	3,081
Class of 2015	4,092	-	-	4,092
Class of 2016	1,169	-	-	1,169
Class of 2017	1,124	215	-	1,339
Class of 2018	2,335	5,561	5,699	2,197
Class of 2019	872	327	-	1,199
Class of 2020	1,092	288	-	1,380
Class of 2021	-	966	-	966
Counseling	8,771	10,871	10,907	8,735
Dance Club	602	-	-	602
Equestrian Team	61	-	-	61
General Science	388	580	357	611

Armada Area Schools
Other Supplementary Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2018

	Due to (From) Student Groups June 30, 2017	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2018
Girls Basketball	4,898	19,803	18,093	6,608
Girls Softball	1,127	579	1,278	428
Girls Varsity Soccer	1,954	2,033	3,325	662
Girls Varsity Tennis	78	966	1,003	41
Golf	198	85	281	2
Graduation DVD's	1,976	-	1,381	595
Grandma's Scholarship	300	-	-	300
Greenhouse	87	-	-	87
Health Occupations	162	10,406	10,461	107
Heide/O'Leary Scholarship	75	-	-	75
High School Internal Reserve Funds	6,856	10,850	4,709	12,997
High School Miscellaneous	7	1,075	1,024	58
High School Online Tutoring	4,249	4,275	2,000	6,524
High School Powerlifting	74	-	-	74
JV Baseball	72	-	52	20
JV Volleyball	3,078	15,710	17,667	1,121
L.C.C.E.	104	-	-	104
Library	275	-	-	275
Luke Hurd Memorial Scholarship	2,000	2,000	3,000	1,000
Math	232	-	-	232
Middle School Basketball	88	660	660	88
Middle School Cheer	1,737	7,059	8,743	53
Middle School Wrestling	326	934	1,142	118
Middle School Volleyball	-	428	-	428
Miscellaneous Grants	400	-	-	400
Miscellaneous Scholarship	22,090	20,110	17,750	24,450
Musical	14,636	42,585	36,738	20,483
National Honor Society	1,946	2,430	1,439	2,937
Neely Scholarship	9,602	7,500	8,600	8,502
Conservatory	329	10,114	9,732	711

Armada Area Schools
Other Supplementary Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2018

	Due to (From) Student Groups June 30, 2017	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2018
Kuzminski Scholarship Fund	500	500	500	500
Spelling Bee	363	-	-	363
Powder Puff Football	1,357	2,066	1,446	1,977
Prom	5,056	19,527	20,360	4,223
Regit	5,569	24,511	21,645	8,435
Renewable Energy	98	13	111	-
S.A.D.D.	141	-	-	141
Soccer	392	852	518	726
Spanish Club	-	98	97	1
Special Education Field Day	-	583	583	-
Student Senate	10,580	14,365	15,224	9,721
Technology	4,234	8,035	8,816	3,453
The Tiger Den	2,693	22,482	24,671	504
Track	8,055	40,098	35,140	13,013
Trap Team	5,181	6,765	5,191	6,755
Varsity Baseball	4,791	8,175	10,616	2,350
Varsity Boy Tennis	391	2,020	380	2,031
Varsity Football	18,941	36,305	36,601	18,645
Wrestling	3,571	3,083	4,289	2,365
	235,409	512,466	508,803	239,072

Armada Area Schools
Other Supplementary Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2018

	Due to (From) Student Groups June 30, 2017	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2018
<u>Auxiliary Services Fund</u>				
Auxiliary Internal Reserve Fund	79	2		81
Child Care	85	1,121	1,150	56
Preschool	1,940	6,446	4,499	3,887
	<u>2,104</u>	<u>7,569</u>	<u>5,649</u>	<u>4,024</u>
<u>Burk Street Activity Funds</u>				
A.P.P.L.E.	207	186	170	223
Benefit for Books	121	-	-	121
Burk St. Internal Reserve Fund	116	18	-	134
G Winne Scholarship	500	1,225	-	1,725
Miscellaneous Dinner	4	-	-	4
Miscellaneous	2,643	150	913	1,880
Parking Lot Maintenance	11,963	3,987	-	15,950
Program Development	69	-	-	69
Project Care	9,015	3,602	2,666	9,951
Special Services	221	-	-	221
Vending Machine	5,371	10,072	9,003	6,440
	<u>30,230</u>	<u>19,240</u>	<u>12,752</u>	<u>36,718</u>

Armada Area Schools
Other Supplementary Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2018

	Due to (From) Student Groups June 30, 2017	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2018
<u>Macomb Academy for the Arts and Sciences Activity Funds</u>				
MA2S Ambassadors	337	78	48	367
MA2S Beta Club	24	635	45	614
MA2S Field Trips	2	-	-	2
MA2S Fundraisers	1,526	4,373	3,945	1,954
MA2S Miscellaneous	244	154	267	131
MA2S Research Fund	180	-	95	85
MA2S Reserve Fund	8	68	-	76
Athletics	-	650	-	650
Art Club	31	-	-	31
Miscellaneous	-	127	-	127
Robotics Program	16,053	41,234	48,544	8,743
Tech Library	395	-	-	395
Yearbook	360	-	360	-
	<u>19,160</u>	<u>47,319</u>	<u>53,304</u>	<u>13,175</u>
Total	<u>\$ 394,247</u>	<u>\$ 773,496</u>	<u>\$ 755,686</u>	<u>\$ 412,057</u>

Armada Area Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2018

Year Ending June 30,	2014 Refunding	2015 Refunding	2016 Tech Bond	2017 Series A	2017 Series B	2018 Building & Site Bond	Total
2019	\$ 955,000	\$ 750,000	\$ 600,000	\$ -	\$ 2,905,000	\$ 190,000	\$ 5,400,000
2020	995,000	750,000	625,000	45,000	2,940,000	235,000	5,590,000
2021	1,045,000	765,000	665,000	45,000	3,005,000	235,000	5,760,000
2022	1,100,000	780,000	700,000	45,000	3,080,000	245,000	5,950,000
2023	1,230,000	-	700,000	45,000	3,885,000	255,000	6,115,000
2024	1,285,000	-	-	45,000	-	380,000	1,710,000
2025	1,350,000	-	-	45,000	-	390,000	1,785,000
2026	965,000	-	-	400,000	-	485,000	1,850,000
2027	-	-	-	1,485,000	-	435,000	1,920,000
2028	-	-	-	1,545,000	-	445,000	1,990,000
2029	-	-	-	1,595,000	-	470,000	2,065,000
2030	-	-	-	1,630,000	-	510,000	2,140,000
2031	-	-	-	-	-	1,090,000	1,090,000
2032	-	-	-	-	-	1,125,000	1,125,000
Total	<u>\$ 8,925,000</u>	<u>\$ 3,045,000</u>	<u>\$3,290,000</u>	<u>\$ 6,925,000</u>	<u>\$ 15,815,000</u>	<u>\$ 6,490,000</u>	<u>\$ 44,490,000</u>
Principal payments due the first day of	May	May	May	May	May	May	
Interest payments due the first day of	May and November	May and November	May and November	May and November	May and November	May and November	
Interest rate	4.00% - 5.00%	2.00% - 5.00%	2.10%	2.00% - 3.00%	1.810% - 3.036%	3.00%	
Original issue	<u>\$ 11,570,000</u>	<u>\$ 3,750,000</u>	<u>\$4,100,000</u>	<u>\$ 6,925,000</u>	<u>\$ 15,815,000</u>	<u>\$ 6,490,000</u>	



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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*

Independent Auditors' Report

Management and the Board of Education
Armada Area Schools
Armada, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Armada Area Schools as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Armada Area Schools' basic financial statements, and have issued our report thereon dated September 24, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Yeo & Yeo, P.C.

Flint, Michigan
September 24, 2018



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September 24, 2018

Management and the Board of Education
Armada Area Schools
74500 Burk Street
Armada, MI 48005

We have completed our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Armada Area Schools as of and for the year ended June 30, 2018, and have issued our report dated September 24, 2018. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 29, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 of the financial statements. The School District has adopted the new Government Accounting Standards Board Statements as noted in the notes to the financial statements, effective July 1, 2017.

We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement in the proper period.

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

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Net OPEB liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole and free from bias.

Disclosures in the financial statements are neutral, consistent and clear.

Accounting Standards and Regulatory Updates

Accounting Standards

The Governmental Accounting Standards Board has released the following Statements:

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The criteria generally is on (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 87, *Leases* increases the usefulness of the District's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the District's leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the District's financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities districts should include when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

The School District is evaluating the impact the above pronouncements will have on its financial reporting.

Regulatory and Other Updates

Cybersecurity Posture

Cybersecurity posture, an overall measure of cybersecurity strength, is more prevalent than ever as organizations continue to face cybersecurity risks. Billions of emails are sent every day, some of which contain attachments with malicious files or malicious embedded links aimed at negatively impacting unsuspecting organizations. A recent study showed as many as four out of five U.S. companies have suffered from an attack. Not only can a successful attack cost thousands of dollars and put a strain on IT resources while remediation efforts are underway, but sensitive information may be breached.

Risk assessment is a first step in mitigating cybersecurity risks and improving your School District's overall cybersecurity posture. The National Institute of Standards and Technology published *Framework for Improving Critical Infrastructure Cybersecurity*, which "enables organizations, regardless of size, degree of cybersecurity risk, or cybersecurity sophistication, to apply the principles and best practices of risk management to improving the security and resilience of critical infrastructure." The framework is designed to cover five areas including identification, protection, detection, responsiveness and recovery. The publication can be found at www.nist.gov.

Placing significant emphasis on evaluating your School District's cybersecurity posture, and channeling sufficient resources towards proper risk assessment, implementation, and education will reduce the likelihood of a cybersecurity threat, and help lessen the impact of a breach.

Uniform Guidance – Implementation of Federal Grant Procurement Standards

In May 2017, the federal government granted an additional one-year delay for implementation of the procurement standards under the Uniform Guidance. The grace period now extends through December 25, 2017. Therefore entities with fiscal years beginning on or after December 26, 2017 must have procurement standards, for federal expenditures, that meet the more stringent requirements of 2 CFR 200.317 to 326. For school districts, it will apply to fiscal year 2019 and therefore, must be in place starting July 1, 2018. It is imperative that your procurement policies – whatever they are documented as – be followed. The Uniform Guidance and the old guidance in the OMB Circulars provide minimum requirements that must be covered by an entity's procurement policies. If an entity's policies are stricter than the federal rules, the entity policies still must be followed. As you adopt new procurement policies, we also recommend that you consider separate policies for federal and non-federal expenditures to ease the administrative burden of certain federal requirements.

Michigan Department of Education has put out sample procedures covering all the required items, including procurement, on their website.

Fiscal Year (FY) 2019 School Aid

The School Aid budget for FY 2019 was signed in June, 2018. Following are some significant highlights of the bill:

- The per pupil Foundation Grants for FY 2019 will increase by a range of \$120 to \$240 using the "2X formula." The increase will be added to the FY 2018 foundation grant resulting in the lowest foundation for FY 2018 being \$7,871 and the maximum state guaranteed foundation being \$8,409.
- The Pupil Membership Blend will remain at 90% of the current school year October count and 10% of the prior school year February count.
- The Section 31a At-Risk funding is maintained at \$499,000,000. Eligibility expanded to include grades K-12, from K-3, and shall use resources to address early literacy and numeracy through an evidence-based framework that uses data-driven problem solving through a multi-tiered system of supports. Adds language that for schools in which more than 40% of pupils are identified as At-Risk, a district may use the funds it receives to implement schoolwide reforms that are guided by the district's comprehensive needs assessment and are included in the district improvement plan. Allows for up to 5% to be used for professional development.
- The per pupil funding under Section 20f will be equal to the per pupil funding in 2017-18.
- A New Section 31m has been created as a separate account to improve mental health and support services for K-12 pupils. A deposit of \$30 million has been allocated for this purpose.
- A new Section 54d appropriates \$5 million in grant funds for intermediate districts to provide pilot programs for children from birth to 3 years of age with developmental disability and/or delay.

- Section 147c has a MPSERS rate cap funding set at \$1.03 billion, which is an increase of \$72 million. The rate cap is estimated at \$690 per pupil.
- Section 147e includes \$37.6 million allocated as a direct reimbursement for additional retirement costs for specific qualified participants due to PA 92 of 2017.

Budget Assumptions & Early Warning

Each school district that has a general fund balance less than 5% of total unrestricted general revenue for either of the 2015-2016 or 2016-2017 school fiscal years is required to submit budget assumptions to the Center for Educational Performance and Information (CEPI).

Uniform Budgeting and Accounting Act (UBAA)

The UBAA establishes budget and accounting requirements for local governments and school districts, including public school academies. It also establishes oversight requirements for MDE as well as the Michigan Attorney General. Material violations of the UBAA, including but not limited to General Fund deficits, should be reported as financial statement findings in the audit report. UBAA states that if it becomes apparent during the year that the probable revenues will be less than the budgeted revenues, the fiscal officer shall present recommendations to the legislative body which, if fiscal adopted, would prevent expenditures from exceeding available revenues for the fiscal year. UBAA states that an officer of the school district shall not incur expenditures against an appropriation account in excess of the amount appropriated by the board. Noncompliance includes, but is not limited to, over-expending the budget authorized by the board. MDE is analyzing the General Fund only, and at the total revenues, expenditures and financing sources (uses) levels, rather than at the line item level. MDE has stated a 0% tolerance for UBAA noncompliance.

Current Operating Expenditures (COE) for UAAL

Effective for the plan year ended September 30, 2019, the percentage change in Current Operating Expenditures (COE) from one year to the next will be used to adjust the payroll on which the UAAL rate is charged. FY 2017 (September) reported payroll will be adjusted by the percent change in COE from 2016 to 2017 to establish the FY19 adjusted payroll. The capped UAAL rate of 20.96% continues to be used in the calculation. ORS has put examples on their website to walk the school district through the calculation.

- UAAL contributions will no longer be calculated on member wages reported throughout the FY.
- This did not affect the 2018 fiscal year, but will impact the 2019 fiscal year.
- The FY 2019 payment process for contributions will be spread out over all Employer Statements in State FY 2019 (October 2018 through September 2019).

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures that were more than trivial.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report we had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

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

Other Audit Findings or Issues

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

Emphasis of Matters in Independent Auditors' Report

Our report will include the following emphasis of matter paragraph:

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2018, the School District adopted GASB Statement no. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Reports

Other information that is required to be reported to you is included in the: 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*. Please read all information included in that report to ensure you are aware of relevant information.

Report on Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, schedule of the school district's proportionate share of the net pension liability, schedule of the school district's pension contributions, schedule of the school district's proportionate share of the net pension liability, schedule of the school district's contributions, and budgetary comparison information, we applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

Report on Other Supplementary Information

With respect to the other supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We discussed these matters with various personnel in the School District during the audit and have already met with management. We would also be pleased to meet with you to discuss these matters at your convenience.

Restriction on Use

These communications are intended solely for the information and use of management, the Board of Education, and others within the School District, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Flint, Michigan