KINGSLEY AREA SCHOOLS

KINGSLEY, MICHIGAN

JUNE 30, 2018

Baird, Cotter & Bishop, P.C.
SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS
134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749
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KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2018

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August 24, 2018

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Kingsley Area Schools
Kingsley, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kingsley Area Schools, Kingsley, Michigan as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Kingsley Area Schools, Kingsley, Michigan as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 2.Q to the financial statements, Kingsley Area Schools implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is 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 and required supplementary information, as identified in the table of contents, on pages iv through xi and 38-43 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 Kingsley Area Schools' basic financial statements. The combining fund financial statements and other information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The other information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2018, on our consideration of Kingsley 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 Kingsley 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 Kingsley Area Schools' internal control over financial reporting and compliance.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2018

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

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements consist of the following three components: the government-wide financial statements, fund financial statements, and the notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

A. Government-Wide Financial Statements

The government-wide statements provide short-term and long-term financial information about the District's overall financial status. These statements are required by generally accepted accounting principles (GAAP) as described in the Government Accounting Standards Board (GASB) Statement No. 34. The district-wide financial statements are compiled using full accrual basis of accounting and more closely represent financial statements presented by business and industry. The Statement of Net Position includes all of the District's assets and liabilities. All of the year's revenue and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position.

Over time, increases and decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.

To assess the overall health of the District requires consideration of additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are all shown in one category titled "Governmental Activities". These activities, including regular and special education, transportation, administration, food services, and athletic activities, are primarily financed with state and federal aids and property taxes.

B. Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds, rather than the District as a whole. Funds that do not meet the threshold to be classified as major funds are called "non-major" funds. Detailed financial information for non-major funds can be found in the combining and individual fund statements section.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District may establish other funds to control and manage money for particular purposes.

The District maintains the following kinds of funds:

Governmental Funds – The District's basic services are included in governmental funds, which generally focus on 1) how cash and other financial assets that can be readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that 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. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.

Fiduciary Funds – The District is a trustee, or fiduciary, for assets that belong to other organizations. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

The District maintains two types of fiduciary funds. The Agency fund reports resources held by the District in a custodial capacity for individuals, private organizations and other governments. The Private Purpose Trust Fund is used to account for resources legally held in trust to provide scholarships to post-secondary education students.

C. Summary of Net Position

The following schedule summarizes the net position at June 30. The prior year has not been restated to include the new GASB No. 75 Standards-*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions:*

	2018	2017
Assets		
Current Assets	$ 6,128,432	$ 5,863,148
Non Current Assets		
Capital Assets	19,508,499	18,214,821
Less Accumulated Depreciation	(9,518,770)	(9,040,430)
Total Non Current Assets	9,989,729	9,174,391
Total Assets	16,118,161	15,037,539
Deferred Outflows of Resources	4,779,553	2,305,231

	2018	2017
Liabilities		
Current Liabilities	1,973,623	2,046,658
Non Current Liabilities	23,944,707	17,384,223
Total Liabilities	25,918,330	19,430,881
Deferred Inflows of Resources	2,028,684	799,012
Net Position		
Net Investment in Capital Assets	9,336,216	7,892,365
Restricted for Specific Purposes	278,693	215,407
Unrestricted (Deficit)	(16,664,209)	(10,994,895)
Total Net Position	$ (7,049,300)	$ (2,887,123)

D. Analysis of Financial Position

During the fiscal year ended June 30, 2018, the District's net position increased by $1,851,639. A few of the more significant factors affecting net position during the year are discussed below:

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net position.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2018, $627,631 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the year ended June 30, 2018, $1,442,969 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets, disposal of capital assets and the current year's depreciation is an increase in capital assets in the amount of $815,338 for the year ended June 30, 2018.

3. Pension and Other Postemployment Benefits Expense

GASB 68 and 75 now requires the District to account for its payments to the Michigan Public School Employees' Retirement System in a manner that has a significant effect on the District's change in net position. Based on various factors, the District may report an increase or decrease in net position depending on whether the District's proportionate share of the net pension liability and net other postemployment benefits liability increases or decreases in any given year. For the year ended June 30, 2018, the District reported an increase in net position related to GASB 68 and 75, which indicates that the District's proportionate share of the net pension and other postemployment benefits liability has decreased.

E. Results of Operations

The following schedule summarizes the results of operations, on a district-wide basis, for the fiscal year ended June 30. The prior year has not been restated to include the new GASB No. 75 Standards-*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions:*

	2018	2017
General Revenues		
Property Taxes	$ 1,674,875	$ 1,645,180
Investment Earnings	17,088	11,549
State Sources	10,464,824	9,721,204
Other	20,401	32,420
Total General Revenues	12,177,188	11,410,353
Program Revenues		
Charges for Services	682,593	686,497
Operating Grants	3,151,765	2,615,854
Capital Grants	836,341	0
Total Program Revenues	4,670,699	3,302,351
Total Revenues	16,847,887	14,712,704
Expenses		
Instruction	8,609,550	8,534,229
Supporting Services	5,012,329	4,094,644
Athletic Activities	379,925	322,475
Food Service Activities	881,421	795,085
Facilities Acquisition	3,777	82,840
Community Services	67,808	91,934
Other Transactions	8,030	10,196
Interest on Long-Term Debt	33,408	57,124
Total Expenses	14,996,248	13,988,527
Change in Net Position	$ 1,851,639	$ 724,177

F. Financial Analysis of the District's Funds

The financial performance of the District as a whole is also reflected in its governmental funds. The following table shows the change in total fund balances of each of the District's governmental funds:

	2018	2017	Increase (Decrease)
Major Funds			
General Fund	$ 4,172,845	$ 3,959,799	$ 213,046
Nonmajor Funds			
Food Service	184,147	113,896	70,251
2010 Debt Retirement Fund	120,132	126,285	(6,153)
Public Improvement Fund	311,623	229,481	82,142
Total Governmental Funds	$ 4,788,747	$ 4,429,461	$ 359,286

In 2018, the General Fund increased its fund balance as a result of increased enrollment and cost containment.

The Food Service Fund increased its fund balance with Chartwells managing the food service program. The federal revenue increased along with more meals served this year.

The 2010 Debt Retirement Fund decreased its fund balance due to debt payments exceeding tax revenue in the current year.

The Public Improvement Fund increased its fund balance due to having less expenditures than the transfer in from the General Fund.

G. Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levies 18 mills of property taxes for operations on non-principal residence exemption properties, less the mandatory reductions required by the Headlee Amendment, Article IX, Section 31. According to Michigan law, the tax levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2017-2018 fiscal year, the District levied $1,029,407 in non-principal residence exemption property taxes.

The following table summarizes the non-principal residence exemption property tax levies for operations for the past five years:

Fiscal Year	Non-Homestead Tax Levy
2017-2018	$ 1,029,407
2016-2017	1,017,418
2015-2016	1,028,255
2014-2015	1,038,236
2013-2014	983,855

2. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on student enrollment. The enrollment consists of 90% of the current year's fall count and 10% of the prior year's spring count. For the 2017-2018 fiscal year, the District received $7,631 per student FTE.

3. Student Enrollment

The following schedule summarizes the blended student enrollment for the past five years:

Fiscal Year	Blended Student FTE
2017-2018	1,531
2016-2017	1,462
2015-2016	1,422
2014-2015	1,401
2013-2014	1,395

4. Operating Grants

The District funds a significant portion of its operations with categorical sources. For the year ended June 30, 2018, federal, state, and other grants accounted for $3,151,765 This represents an increase of $535,911 from the total grant sources received compared to the 2016-2017 fiscal year.

H. General Fund Budgetary Highlights

The Uniform Accounting and Budgeting Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2017-2018 fiscal year, the District amended the General Fund at various time throughout the year, with the Board adopting the changes as summarized below. The following schedule shows a comparison of the original General Fund budget, the final amended General Fund budget, and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES	$ 13,098,602	$ 14,434,700	$ 14,442,671
EXPENDITURES			
Instruction	$ 8,982,419	$ 9,407,695	$ 9,398,213
Supporting Services	4,234,720	4,389,642	4,388,758
Community Services	89,512	68,956	67,808
Other Transactions	2,500	77,949	77,746
Total Expenditures	$ 13,309,151	$ 13,944,242	$ 13,932,525

The original revenue budget of $13,098,602 was increased to $14,434,700 as a result of increased revenue from federal, state, and local sources. The original expenditure budget of $13,309,151 was increased to $13,944,242. Basic Instruction increased due to the addition of a GSRP/preschool program and various teaching positions. General administration increased for contract changes and legal fees. The difference between the final and actual revenue and expenditure amounts is minimal.

I. Capital Asset and Debt Administration

1. Capital Assets

By the end of the 2017-2018 fiscal year, the District had invested $19,508,499 in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. Depreciation expense for the year amounted to $627,631 bringing the accumulation to $9,518,770 as of June 30, 2018.

The additions to capital assets included:

- Various land improvements in the amount of $92,384.
- Lockers in the amount of $7,338.
- Land purchased in the amount of $69,716.
- Land donated in the amount of $800,600.
- Food service equipment purchased in the amount of $38,333.
- Various technology purchased in the amount of $82,151.
- Truck purchased in the amount of $38,406.
- Two School buses purchased for a total cost of $179,032.
- Various Furniture and Equipment purchased in the amount of $43,353.
- Construction in progress related to lockdown system in the amount of $91,656.

The District has also committed to purchasing two new school buses, replacing school lockers, and strength and conditioning room upgrade in the amount of $338,803. Additional information on the District's capital assets can be found in the notes to this report.

2. Long-Term Debt

At June 30, 2018, the District had $630,000 in bonded debt outstanding. This represents a decrease of $605,000 from the amount outstanding at the close of the prior fiscal year. The District also had an outstanding net pension and net other postemployment benefits liability of $23,673,977 at year-end.

J. Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future:

- The current budget is built with a retirement rate estimated at 38.39%. We are concerned about how the future retirement rates will be calculated with changes in legislation.

- The per pupil Foundation Allowance increased $240 for the 2018/19 school year, therefore enrollment shifts could drastically effect State Revenues.

- The District has experienced increasing enrollment and as a result the school buildings are reaching capacity. The Board of Education plans to hold several meetings for the 2018/19 school year to discuss building expansion with a new bond issue.

- The current support staff union contract will expire at the end of the 2020/21 school year. The teacher union contract will expire at the end of the 2018/19 school year.

K. Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the Superintendent, Kingsley Area Schools, 402 Fenton Street, Kingsley, Michigan 49649.

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KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2018

		GOVERNMENTAL ACTIVITIES
ASSETS		
CURRENT ASSETS		
Cash	$	1,561,286
Investments		2,059,571
Accounts Receivable		11,009
Due from External Parties (Fiduciary Funds)		23,673
Due from Other Governments		2,365,936
Inventories		101,917
Prepaid Expenses		5,040
Total Current Assets		6,128,432
NONCURRENT ASSETS		
Capital Assets		19,508,499
Less Accumulated Depreciation		(9,518,770)
Total Non Current Assets		9,989,729
TOTAL ASSETS		16,118,161
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		4,315,265
Deferred Outflows Related to Other Postemployment Benefits		452,959
Deferred Loss on Refunding		11,329
TOTAL DEFERRED OUTFLOWS OF RESOURCES		4,779,553

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

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2018

	GOVERNMENTAL ACTIVITIES
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	88,866
Accrued Interest Payable	3,938
Salaries Payable	1,233,743
Due to Other Governments	12,111
Unearned Revenue	4,965
Current Portion of Noncurrent Liabilities	630,000
Total Current Liabilities	1,973,623
NONCURRENT LIABILITIES	
Bonds Payable - Net	653,513
Net Pension Liability	17,668,054
Net Other Postemployment Benefits Liability	6,005,923
Compensated Absences	247,217
Less Current Portion of Non Current Liabilities	(630,000)
Total Non Current Liabilities	23,944,707
TOTAL LIABILITIES	25,918,330
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	1,825,650
Deferred Inflows Related to Other Postemployment Benefits	203,034
TOTAL DEFERRED INFLOWS OF RESOURCES	2,028,684
NET POSITION	
Net Investment in Capital Assets	9,336,216
Restricted for Food Service	162,499
Restricted for Debt Service	116,194
Unrestricted - (Deficit)	(16,664,209)
TOTAL NET POSITION - (Deficit)	$ (7,049,300)

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

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS	PROGRAM REVENUES: CAPITAL GRANTS	GOVERNMENTAL ACTIVITIES: NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
GOVERNMENTAL ACTIVITIES					
Instruction	$ 8,609,550	$ 111,821	$ 2,099,791	$ 0	$ (6,397,938)
Supporting Services	5,012,329	29,301	465,624	836,341	(3,681,063)
Athletic Activities	379,925	64,139	17,568	0	(298,218)
Food Service Activities	881,421	426,571	557,869	0	103,019
Facilities Acquisition	3,777	0	0	0	(3,777)
Community Services	67,808	50,761	10,913	0	(6,134)
Other Transactions	8,030	0	0	0	(8,030)
Interest on Long-Term Debt	33,408	0	0	0	(33,408)
TOTAL GOVERNMENTAL ACTIVITIES	$ 14,996,248	$ 682,593	$ 3,151,765	$ 836,341	(10,325,549)
GENERAL REVENUES					
Property Taxes - General Purposes					1,029,407
Property Taxes - Debt Service					645,468
Investment Earnings					17,088
State Sources					10,464,824
Other					20,401
Total General Revenues					12,177,188
Change in Net Position					1,851,639
NET POSITION - Beginning of Year - (Deficit) - (As Restated)					(8,900,939)
NET POSITION - End of Year - (Deficit)					$ (7,049,300)

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

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2018

ASSETS	GENERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Cash	$ 961,964	$ 599,322	$ 1,561,286
Investments	2,059,571	0	2,059,571
Accounts Receivable	8,116	2,893	11,009
Due from Other Funds	23,659	2,828	26,487
Due from Other Governments	2,344,709	21,227	2,365,936
Inventory	80,269	21,648	101,917
Prepaid Expenditures	5,040	0	5,040
TOTAL ASSETS	$ 5,483,328	$ 647,918	$ 6,131,246
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	$ 61,815	$ 27,051	$ 88,866
Salaries Payable	1,233,743	0	1,233,743
Due to Other Funds	2,814	0	2,814
Due to Other Governments	12,111	0	12,111
Unearned Revenue	0	4,965	4,965
Total Liabilities	1,310,483	32,016	1,342,499
FUND BALANCES			
Nonspendable:			
Inventory	80,269	21,648	101,917
Prepaid Expenditures	5,040	0	5,040
Restricted for:			
Food Service	0	162,499	162,499
Debt Service	0	120,132	120,132
Committed for:			
Public Improvements	0	311,623	311,623
Assigned for:			
Budgeted Use of Fund Balance in 18/19	14,995	0	14,995
Unassigned	4,072,541	0	4,072,541
Total Fund Balances	4,172,845	615,902	4,788,747
TOTAL LIABILITIES AND FUND BALANCES	$ 5,483,328	$ 647,918	$ 6,131,246

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

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

JUNE 30, 2018

Total Governmental Fund Balances		$ 4,788,747
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		
The cost of the capital assets is	$ 19,508,499	
Accumulated depreciation is	(9,518,770)	9,989,729
Other long-term assets are not available for pay for current period expenditures and, therefore, are deferred in the funds. These assets consist of:		
Deferred Loss on Refunding		11,329
Long-term liabilities are not due and payable in the current period and are not reported in the funds.		
Bonds Payable		(630,000)
Bond Discount (Premium)		(23,513)
Compensated Absences		(247,217)
Net Pension Liability		(17,668,054)
Net Other Postemployment Benefits Liability		(6,005,923)
Deferred outflows and (inflows) of resources related to pensions and other postemployment benefits are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources - related to pensions		4,315,265
Deferred inflows of resources - related to pensions		(1,825,650)
Deferred outflows of resources - related to other postemployment benefits		452,959
Deferred inflows of resources - related to other postemployment benefits		(203,034)
Accrued interest is not included as a liability in government funds, it is recorded when paid.		(3,938)
NET POSITION OF GOVERNMENTAL ACTIVITIES		$ (7,049,300)

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

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

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

YEAR ENDED JUNE 30, 2018

	GENERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Local Sources	$ 1,360,591	$ 1,072,768	$ 2,433,359
State Sources	12,544,026	32,213	12,576,239
Federal Sources	238,383	528,280	766,663
Other Transactions	299,671	0	299,671
Total Revenues	14,442,671	1,633,261	16,075,932
EXPENDITURES			
Instruction	9,398,213	0	9,398,213
Supporting Services	4,053,161	166,764	4,219,925
Athletic Activities	335,597	0	335,597
Food Service Activities	0	911,393	911,393
Facilities Acquisition	0	51,339	51,339
Debt Service			
Principal	0	605,000	605,000
Interest	0	49,625	49,625
Community Services	67,808	0	67,808
Other Transactions	77,746	0	77,746
Total Expenditures	13,932,525	1,784,121	15,716,646
Excess (Deficiency) of Revenues Over Expenditures	510,146	(150,860)	359,286
OTHER FINANCING SOURCES (USES)			
Transfers In	2,900	300,000	302,900
Transfers Out	(300,000)	(2,900)	(302,900)
Total Other Financing Sources (Uses)	(297,100)	297,100	0
Net Change In Fund Balances	213,046	146,240	359,286
FUND BALANCE - Beginning of Year	3,959,799	469,662	4,429,461
FUND BALANCE - End of Year	$ 4,172,845	$ 615,902	$ 4,788,747

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

Net Change in Fund Balances Total Governmental Funds	$ 359,286
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures. In the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(627,631)
Capital Outlay	1,442,969
Accrued interest on bonds is recorded in the Statement of Activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued Interest Payable - Beginning of Year	7,971
Accrued Interest Payable - End of Year	(3,938)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, the 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.	
Repayment of Principal	605,000
Amortization of Deferred Charges	12,184
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Change in Pension Related Items	(34,789)
Change in Other Postemployment Benefit Related Items	71,003
Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension and other postemployment benefit contributions subsequent to the measurement date.	
Change in State Aid Funding for Pension and Other Postemployment Benefits	(28,645)
Employees Compensated Absences are reported on the accrual method in the Statement of Activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Compensated Absences - Beginning of Year	295,446
Compensated Absences - End of Year	(247,217)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 1,851,639

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

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

JUNE 30, 2018

	PRIVATE-PURPOSE TRUST FUND	AGENCY FUND
ASSETS		
Cash	$ 59,781	$ 278,863
LIABILITIES		
Due to Other Funds	0	23,673
Due to Groups and Organizations	0	255,190
Total Liabilities	0	278,863
NET POSITION		
Restricted for Scholarships	$ 59,781	$ 0

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

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS

JUNE 30, 2018

	PRIVATE-PURPOSE TRUST FUND
ADDITIONS	
Earnings on Investments	$ 31
DEDUCTIONS	
Scholarships Awarded	2,937
Change in Net Position	(2,906)
NET POSITION - Beginning of Year	62,687
NET POSITION - End of Year	$ 59,781

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Kingsley Area Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The School District ("the District") is located in Grand Traverse and Wexford Counties with its administrative offices located in Kingsley, Michigan. The District operates under an elected 7-member board of education and provides services to its 1,531 students in elementary, middle school, high school, special education instruction, transportation, food service and athletics. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

B. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the *Statement of Net Position* and the *Statement of Activities*) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The District does not have any business-type activities or component units.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental fund:

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

Other non-major funds:

The *special revenue (School Service) fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its food service activities in a special revenue fund.

The *capital projects fund (public improvement fund)* is used to account for financial resources to be used for major improvement projects and is primarily funded from transfers in from the general fund.

The *debt retirement fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of government funds.

Additionally, the District reports the following fund type:

Fiduciary funds are accounted for using the accrual method of accounting. Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The District reports the following fiduciary funds:

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity.

The *private purpose trust fund* is used to account for resources legally held in trust to provide scholarships to post-secondary education students. Contributions are held as permanent endowments and the earnings from those endowments can be used to provide the scholarships.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The private-purpose trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

F. Budgetary Information

1. Budgetary Basis of Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. While all appropriations and encumbrances lapse at year-end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

a) In June, the superintendent submits to the school board a proposed operating budget for the fiscal year commencing on July 1.

b) A public hearing is conducted during June to obtain taxpayer comments.

c) Prior to July 1, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year, when necessary, to adjust appropriations if it appears that revenues and other financial sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated.

d) The superintendent is charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.

e) For purposes of meeting emergency needs of the District, transfer of appropriations may be made by the authorization of the superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

f) During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.

g) Budgeted amounts are as originally adopted on June 22, 2017, or as amended by the School Board of Education throughout the year.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

Cash includes amounts in demand deposits.

2. Investments

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the District to invest as follows:

a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States.

b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.

c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

d) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.

e) Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.

The District's deposits and investments are held separately by several of the District's funds.

3. Inventory and Prepaid Items

Inventory is valued at cost using the first in/first out method. Inventory consists of expendable supplies held for consumption, which are recorded as expenditures when consumed rather than when purchased.

Certain payments made to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

The nonspendable fund balance at the governmental fund level is equal to the amount of inventories and prepaid items at year-end to indicate the portion of the governmental fund balances that are nonspendable.

4. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated acquisition value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Land Improvements	10 – 20 Years
Buildings and Additions	25 - 50 Years
Machinery and Other Equipment	5 – 20 Years
Transportation Equipment	5 – 10 Years

The District's capitalization policy is to capitalize individual amounts exceeding $5,000.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has three items that qualify for reporting in this category. They are the deferred charge on refunding, pension and other postemployment benefits related items reported in the government-wide *Statement of Net Position*. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or funding debt. A deferred outflow is recognized for pension and other postemployment benefit related items. These amounts are expenses in the plan year in which they apply. Details can be found in footnote 2.E and 2.F.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two item that qualifies for reporting in this category. They are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. Details can be found in footnote 2.E and 2.F.

6. Defined Benefit Plans

For purposes of measuring the net pension and other postemployment benefit liabilities, deferred outflows of resources and deferred inflows of resources related to pensions, and pension and other postemployment benefits, and pension and other postemployment benefits 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.

7. Unearned Revenue

Unearned revenue arises when resources are received by the District before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenues is recognized. The District has unearned revenue in the Food Service Fund that is related to money received from students for meals in advance.

8. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

9. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The governing board is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

11. Use of Estimates

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

H. Revenues and Expenditures/Expenses

1. State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2018 the foundation allowance was based on pupil membership counts taken in October 2017 and February 2017. For fiscal year ended June 30, 2018, the per pupil foundation allowance was $7,631 for Kingsley Area Schools.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2017 to August 2018. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

2. Program Revenues

Amounts reported as program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, state foundation aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenue but instead as *general revenues*.

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are billed as of December 1. The due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2018, the District levied the following amounts per $1,000 of taxable valuation:

Fund	Mills
General Fund – Non-Principal Residence Exemption (PRE)	17.9910
General Fund – Commercial Personal Property	5.9910
Debt Service Funds – PRE, Non-PRE, Commercial Personal Property	2.8500

4. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused sick pay benefits. The amount allowable to be compensated for depends on the position and the longevity of the individual employee. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

5. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities *Statement of Net Position*. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt.

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

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

Investment Rate Risk. The District will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the District's cash requirement.

Credit Risk. The District will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

Concentration of Credit Risk. The District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2018, the District's bank balance was $2,009,428 and $1,509,428 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. The uninsured funds are in the General, Food Service, Public Improvement, Agency, and Scholarship Trust Funds. Although the District's investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the deposits.

Foreign Currency Risk. The District is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

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. Although the District's investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the investments.

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

	Fair Value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
MILAF+ Cash Management Class	$ 105,271	0.0027	AAAm	5.11%
MILAF+ MAX Class	1,954,300	0.0027	AAAm	94.89%
	$ 2,059,571			100.00%
Portfolio Weighted Average Maturity		0.0027		

1 Day Maturity Equals 0.0027, One Year Equals 1.000

The District invests certain excess funds in external pooled investment funds which include money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund Plus (MILAF+). MILAF+ is a local government investment pool of "qualified" investments for Michigan school districts. MILAF+ is not regulated nor is it registered with the SEC. MILAF+ reports as of June 30, 2018, the fair value of the District's investments is the same as the value of the pooled shares. MILAF, as defined by GASB, is recorded at amortized cost which approximates fair value. The MILAF+ portfolio offers three share classes which are: Cash Management Class, MAX Class, and GovMIC Class. The only class that has limitations or restrictions on withdrawals is MAX

Class, which requires notification of redemptions prior to 14 days to avoid penalties. The MILAF+ portfolio is not subject to fair value disclosures.

Fair Market Value Disclosure - The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices from similar activities, interest rates, prepayment speeds, credit risk, and others. Debt securities are valued in accordance with evaluated bid price supplied by the pricing service and generally categorized as Level 2 in the hierarchy. Securities that are categorized as Level 2 in the hierarchy include, but are not limited to, repurchase agreements, U.S. government agency securities, corporate securities, and commercial paper.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the reporting entity's own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There are two types of valuation techniques most commonly used and vary depending on the level of investment. These two techniques are the market approach and income approach. The market approach uses prices and other relevant information generated by the market transactions involving identical or similar assets and liabilities. The income approach discounts future amounts to a single current amount and the discount rate used in the process should reflect current market expectations about risks associated with those future cash flows.

The District does not have any investments subject to the fair value measurement.

The carrying amount of deposits and investments is as follows:

	Total
Deposits – including Fiduciary Funds of $338,644	$ 1,899,930
Investments	2,059,571
	$ 3,959,501

The above amounts are reported in the financial statements as follows:

	Total
Cash - Fiduciary Funds	$ 338,644
Cash - District-Wide	1,561,286
Investments - District Wide	2,059,571
	$ 3,959,501

B. Receivables

Receivables as of year-end for the government's individual major funds and nonmajor are as follows:

	General Fund	Nonmajor Funds	Total
Receivable			
Accounts	$ 8,116	$ 2,893	$ 11,009
Due from Other Governments	2,344,709	21,227	2,365,936
	$ 2,352,825	$ 24,120	$ 2,376,945

Amounts due from other governments include amounts due from federal, state, and local sources for various projects and programs.

Because of the District's favorable collection experience, no allowance for doubtful accounts has been recorded.

C. Capital Assets

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

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets not being depreciated				
Land	$ 413,971	$ 870,316	$ 0	$ 1,284,287
Construction in Progress	0	91,656	0	91,656
Subtotal	413,971	961,972	0	1,375,943
Capital assets being depreciated				
Buildings	14,027,803	7,338	0	14,035,141
Land Improvements	748,634	92,384	0	841,018
Machinery and Equipment	1,509,492	163,837	19,396	1,653,933
Transportation Equipment	1,506,921	217,438	129,895	1,594,464
Other Assets	8,000	0	0	8,000
Subtotal	17,800,850	480,997	149,291	18,132,556

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Less accumulated depreciation for:				
Buildings	6,439,738	338,547	0	6,778,285
Land Improvements	544,087	37,431	0	581,518
Machinery and Equipment	1,017,120	139,241	19,396	1,136,965
Transportation Equipment	1,031,485	112,412	129,895	1,014,002
Other Assets	8,000	0	0	8,000
Accumulated depreciation	9,040,430	627,631	149,291	9,518,770
Net capital assets being depreciated	8,760,420	(146,634)	0	8,613,786
Net capital assets	$ 9,174,391	$ 815,338	$ 0	$ 9,989,729

Depreciation for the fiscal year ended June 30, 2018, totaled $627,631 was charged to the following functions:

Instruction	$ 53,967
Support Services	531,737
Athletic Activities	33,566
Food Service Activities	8,361
Total	$ 627,631

D. Defined Benefit Plan and Postemployment Benefits

Plan Description – The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at www://Michigan.gov/mpsers-cafr.

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.

Benefit Provisions- Overall

Introduction

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPSERS is as follows:

Plan Name	Plan Type	Plan Status
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined Contribution	Open

Benefits Provided - Pension

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. Retirement benefits for DB plan members are determined by final average compensation and years of service. 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.

Prior to pension reform of 2010 there were two plans commonly referred to as Basic and Member Investment Plan (MIP). Basic plan member's contributions range from 0% to 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later, including Pension Plus plan members, contribute at various graduated permanently fixed contribution rates from 3.0% to 7.0%.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and 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 pension. Any changes to a member's pension 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 the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

An amount determined by the member's election of Option 1, 2, 3, or 4 described below.

Option 1 – Members voluntarily elected to increase their contributions to the pension fund as noted below and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until terminate public school employment.

- Basic plan members: 4% contribution

- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

Option 2 – Members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service their after would include a 1.25% pension factor.

Option 3 – Members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4 – Members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to the tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 accounts. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and final average compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus Plan and the Defined Contribution Plan that provides a 50% employer match up to 3% of salary on employee contributions.

Final Average Compensation (FAC) – Average of highest 60 consecutive months (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected option 4, in which case the FAC is calculated at the transition date.

Pension Reform of 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closes the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan is 6%. Further, the law provides that, under certain conditions, the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The law includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Benefits Provided – Other Postemployment Benefit (OPEB)

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. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, hearing, 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.

Retiree Healthcare Reform of 2012

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 will be deposited into their 401(k) accounts.

Regular Retirement (no reduction factor for age)

Eligibility – A basic plan member may retire at age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

Annual Amount – The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012.

Members Contributions

Depending on the plan selected, member contributions range from 0% to 7% for pension and 0% to 3% for other postemployment benefits. Plan members electing the defined contribution plan are not required to make additional contributions.

Employers Contributions

Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree other post-employment benefits (OPEB). 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.

For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of the September 30, 2017 valuation will be amortized over a 22 year period for fiscal 2017.

School districts' contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

	Pension	Other Postemployment Benefit
October 1, 2016 - September 30, 2017	15.27% - 19.03%	5.69% - 5.91%
October 1, 2017 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%

The District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately $1,841,158.

The District's OPEB contributions for the year ended June 30, 2018 were approximately $455,043.

These amounts for both pension and OPEB, include contributions funded from state revenue Section 147c restricted to fund MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (100% for pension and 0% for OPEB).

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

Pension Liabilities

At June 30, 2018, the District reported a liability of $17,668,054 for its proportionate share of the 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 date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the District's proportion was .06817891% and .06578072%.

MPSERS (Plan) Non-University Net Pension Liability – As of September 30, 2017 and September 30, 2016

	September 30, 2017	September 30, 2016
Total Pension Liability	$ 72,407,218,688	$ 67,917,445,078
Plan Fiduciary Net Position	46,492,967,573	42,968,263,308
Net Pension Liability	$ 25,914,251,115	$ 24,949,181,770
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	64.21%	63.27%
Net Pension Liability as a Percentage of Covered Payroll	309.13%	295.81.%

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

For the year ended June 30, 2018, the District recognized total pension expense of $1,158,456. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 153,547	$ 86,693
Changes of assumptions	1,935,676	0
Net difference between projected and actual earnings on pension plan investments	0	844,649
Changes in proportion and differences between District contributions and proportionate share of contributions	465,400	176,817
District section 147c revenue related to pension contributions subsequent to the measurement date	0	717,491
District contributions subsequent to the measurement date	1,760,642	0
Total	$ 4,315,265	$ 1,825,650

$1,760,642 reported as deferred outflows of resources and $717,491 reported as deferred inflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a net reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources (+) and deferred inflows of resources (-) related to pensions will be recognized in pension expense as follows:

Year Ended September 30,	Amount
2018	$ 369,697
2019	676,132
2020	370,908
2021	29,727
	$ 1,446,464

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

OPEB Liabilities

At June 30, 2018, the District reported a liability of $6,005,923 for its proportionate share of the 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 date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017, the District's proportion was 0.06781822%.

MPSERS (Plan) Non-University Employers Net OPEB Liability – As of September 30, 2017 and September 30, 2016

	September 30, 2017	September 30, 2016
Total OPEB Liability	$ 13,920,945,991	$ 14,071,279,615
Plan Fiduciary Net Position	5,065,474,948	4,730,719,539
Net OPEB Liability	$ 8,855,471,043	$ 9,340,560,076
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	36.39%	33.62%
Net OPEB Liability as a Percentage of Covered Payroll	105.64%	Unknown

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

For the year ended June 30, 2018, the District recognized total OPEB expense of $384,039.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 0	$ 139,092
Changes of assumptions	0	0
Net difference between projected and actual earnings on OPEB plan investments	0	63,942
Changes in proportion and differences between District contributions and proportionate share of contributions	3,783	0
District contributions subsequent to the measurement date	449,176	0
Total	$ 452,959	$ 203,034

$449,176 reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources (+) and deferred inflows of resources (-) related to OPEB will be recognized in OPEB expense as follows:

Year Ended September 30,		Amount
2018	$	(48,218)
2019		(48,218)
2020		(48,218)
2021		(48,218)
2022		(6,379)
	$	(199,251)

G. Actuarial Valuations and Assumptions of the Pension Plan

Investment rate of return for Pension – 7.5% a year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus Plan).

Investment rate of return for OPEB – 7.5% a year, compounded annually net of investment and administrative expenses.

Salary increases - The rate of pay increase used for individual members is 3.5%.

Inflation – 3.0%

Mortality assumptions - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2025 using projection scale BB (for men, 80% of the table rates were used and for women, 70% of the table rates were used).

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2016. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

The long-term expected rate of return on pension and other postemployment benefit plan investments - The pension rate was 7.5% (7% Pension Plus Plan), and the other postemployment benefit rate was 7.5%, net of investment and administrative expenses 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.

Cost of Living Pension Adjustments – 3.0% annual non-compounded for MIP members.

Healthcare cost trend rate for other postemployment benefit – 7.5% for year one and graded to 3.5% to year twelve.

Additional assumptions for other postemployment benefit only – Applies to individuals hired before September 4, 2012:

Opt Out Assumption – 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 coverage 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.

The target asset allocation at September 30, 2017 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Investment Category	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity Pools	28.00%	5.60%
Alternative Investment Pools	18.00%	8.70%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	-0.10%
Real Estate & Infrastructure Pools	10.00%	4.20%
Absolute Return Pools	15.50%	5.00%
Short-Term Investment Pools	2.00%	-0.90%
	100%	

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

Pension Discount Rate

A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus Plan). 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 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.

OPEB Discount Rate

The 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 school districts 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 project to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

1% Decrease (Non-Hybrid/Hybrid) 6.5% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 7.5% / 7.0%	1% Increase (Non-Hybrid/Hybrid) 8.5% / 8.0%
$ 23,015,598	$ 17,668,054	$ 13,165,763

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

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

1% Decrease 6.5%	Current Single Discount Rate Assumption 7.5%	1% Increase 8.5%
$ 7,034,320	$ 6,005,623	$ 5,132,581

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the Reporting Unit's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate of 7.5% (decreasing to 3.5%), as well as what the Reporting Unit's proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

1% Decrease (6.5% decreasing to 2.5%	Current Healthcare Cost Trend Rates (7.5% decreasing to 3.5%)	1% Increase (8.5% decreasing to 4.5%)
$ 5,085,955	$ 6,005,623	$ 7,049,841

H. Pension and OPEB Plan Fiduciary Net Position

Detailed information about the pension and OPEB plan’s fiduciary net position is available in the separately issued Michigan Public School Employees’ Retirement System 2017 Comprehensive Annual Financial Report.

I. Payables to the Pension and OPEB Plan

As of June 30, 2018, the District is current on all required pension and other postemployment benefit plan payments. As of June 30, 2018, the District reported payables in the amount of $365,719 to the pension and OPEB plans. These amounts represent current payments for June wages paid in July, accruals for summer pay primarily for teachers and also the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL).

J. Risk Management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers’ compensation) as well as medical benefits provided to employees.

The District participates in a distinct pool of educational institutions within the State of Michigan for various risks of loss, including general liability, property and casualty, employee health and accident insurance, and workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

K. Lease Information

The rental expense for the year ended June 30, 2018, totaled $14,036.

The rental expense consists of lease agreements for office equipment. The future minimum lease payments for these leases are as follows:

YEAR ENDING	PAYABLES
2019	$ 18,740
2020	18,740
2021	18,740
2022	9,370
	$ 65,590

L. Long-Term Liabilities

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of the governmental long-term liability transactions for the District for the year ended June 30, 2018:

	Bonds	Compensated Absences	Net Pension Liability	Net OPEB Liability	Total
Balance - July 1, 2017	$ 1,235,000	$ 295,446	$ 16,411,751	$ 6,334,602	$ 24,276,799
Additions	0	12,110	2,855,460	199,314	3,066,884
Reductions	(605,000)	(60,339)	(1,599,157)	(527,993)	(2,792,489)
Balance - June 30, 2018	630,000	247,217	17,668,054	6,005,923	24,551,194
Less Current Portion	(630,000)	0	0	0	(630,000)
Total Due After One Year	$ 0	$ 247,217	$ 17,668,054	$ 6,005,923	$ 23,921,194

2010 Refunding Bonds due in annual installments of $630,000 through May 1, 2019, interest at 3.75%	$ 630,000
Accumulated Compensated Absences	247,217
Net Pension Liability	17,668,054
Net OPEB Liability	6,005,923
Total Long-Term Debt	$ 24,551,194

The requirements to amortize debt outstanding as of June 30, 2018, including interest of $23,625 are as follows:

Year Ending June 30,	Bonds Principal	Bonds Interest	Total
2019	$ 630,000	$ 23,625	653,625
Accumulated Compensated Absences			247,217
Net Pension Liability			17,668,054
Net OPEB Liability			6,005,923
			$ 24,574,819

Compensated absences, the net other postemployment benefit liability, and the net pension liability will be paid by the fund in which the employee worked, including the general fund and other governmental funds.

M. Interfund Receivables and Payables

	Interfund Receivables	Interfund Payables
General Fund	$ 23,659	$ 2,814
Food Service Fund	2,682	0
2010 Debt Retirement Fund	146	0
Agency Fund	0	23,673
	$ 26,487	$ 26,487

The outstanding balances between funds result mainly from the time lag between the dates that (1) Interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All Interfund balances outstanding at June 30, 2017 are expected to be repaid within one year.

N. Interfund Transfers

The District had the following interfund transfers for the year ended June 30, 2018.

	Transfers In	Transfers Out
General Fund	$ 2,900	$ 300,000
Food Service Fund	0	2,900
Public Improvement Fund	300,000	0
	$ 302,900	$ 302,900

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

O. Other Information

1. **Commitments and Contingencies**

Under the terms of various federal and state grants and regulatory requirements, periodic audits are required, and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

2. Purchase Commitments

As of June 30, 2018, the District had entered into multiple purchase commitments. The first was a contract to purchase two new school buses for the District at a total cost of $181,480. The second commitment was a strength and conditioning room upgrade at a total cost of $119,523. The third commitment was replacement of athletic metal lockers at a total cost of $37,800. No adjustments have been made to the financial statements for the year ended June 30, 2018 related to these commitments.

3. Single Audit

Current federal guidelines require entities with federal expenditures exceeding $750,000 to have a "single audit" of federally funded programs. This audit is being performed and the reports based thereon will be issued under a separate cover.

P. GASB Statement No. 77 (Tax Abatements)

It has been determined that the District has granted tax abatements as defined by GASB Statement No. 77. However, the total of these abatements is less than $6,000, and it has been determined they are not significant enough to warrant disclosure.

Q. New Accounting Standards

The District implemented the following new pronouncements: GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Summary:

GASB Statement No. 75 requires governments that participate in defined benefit other postemployment benefit (OPEB) plans to report in the statements of net position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The Statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

The restatement of the beginning of the year net position is as follows:

Net Position - Governmental Activities - As Previously Reported, June 30, 2017	$ (2,887,123)
Adoption of GASB Statement 75:	
Net Other Postemployment Benefit Liability	(6,334,602)
Deferred outflows related to Other Postemployment Benefits	507,600
Deferred inflows related to Other Postemployment Benefits	(186,814)
Net Position - Governmental Activities - Restated as of June 30, 2017	$ (8,900,939)

R. Upcoming Accounting Pronouncements

The District is currently evaluating the impact these standards will have on the financial statements when adopted.

Governmental Account Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and will be effective for the District's 2020 fiscal year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

Governmental Account Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the District's 2021 year end. The objective of this Statement is to increase the usefulness of governments' 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 the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2018

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Local Sources	$ 1,343,398	$ 1,354,201	$ 1,360,591
State Sources	11,297,273	12,530,147	12,544,026
Federal Sources	219,840	248,318	238,383
Other Transactions	238,091	302,034	299,671
Total Revenues	13,098,602	14,434,700	14,442,671
EXPENDITURES			
Instruction			
Basic Programs	7,752,369	8,209,743	8,208,753
Added Needs	1,230,050	1,197,952	1,189,460
Supporting Services			
Pupil	281,289	283,002	283,001
Instructional Staff	93,346	141,455	141,454
General Administration	476,793	509,244	508,806
School Administration	623,513	639,923	639,922
Business	151,800	137,902	137,857
Operations and Maintenance	1,140,358	1,096,015	1,095,922
Transportation Services	953,176	1,002,839	1,002,839
Central Services	205,602	243,664	243,360
Athletic Activities	308,843	335,598	335,597
Community Services			
Custody and Care of Children	83,765	61,794	61,790
Non-Public School Pupils	5,747	7,162	6,018
Other Transactions	2,500	77,949	77,746
Total Expenditures	13,309,151	13,944,242	13,932,525
Excess (Deficiency) of Revenues Over Expenditures	(210,549)	490,458	510,146
OTHER FINANCING SOURCES (USES)			
Transfers In	0	0	2,900
Transfers Out	0	(300,500)	(300,000)
Total Other Financing Sources (Uses)	0	(300,500)	(297,100)
Net Change In Fund Balances	(210,549)	189,958	213,046
FUND BALANCE - Beginning of Year	3,652,906	3,959,799	3,959,799
FUND BALANCE - End of Year	$ 3,442,357	$ 4,149,757	$ 4,172,845

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH PLAN YEAR)
JUNE 30, 2018

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of net pension liability (%)							0.06818%	0.06578%	0.06649%	0.06729%
District's proportionate share of net pension liability							$ 17,668,054	$ 16,411,751	$ 16,240,659	$ 14,822,674
District's covered payroll							5,819,615	5,476,392	5,307,984	5,522,364
District's proportionate share of net pension liability as a percentage of its covered payroll							303.59%	299.68%	305.97%	268.41%
Plan fiduciary net position as a percentage of total pension liability							64.21%	63.27%	63.17%	66.20%

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)
JUNE 30, 2018

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contributions							$ 1,841,158	$ 1,624,190	$ 1,481,085	$ 1,231,961
Contributions in relation to statutorily required contributions *							1,841,158	1,624,190	1,481,085	1,231,961
Contribution deficiency (excess)							$ 0	$ 0	$ 0	$ 0
Covered Payroll							$ 6,260,851	$ 5,933,116	$ 5,254,582	$ 5,386,300
Contributions as a percentage of covered payroll							29.41%	27.37%	28.19%	22.87%

* Contributions in relation to statutorily contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OTHER POSTEMPLOYMENT BENEFIT LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH PLAN YEAR)
JUNE 30, 2018

	2026	2025	2024	2023	2022	2021	2020	2019	2018	2017
District's proportion of net OPEB liability (%)										0.06782%
District's proportionate share of net OPEB liability										$ 6,005,923
District's covered payroll										5,819,615
District's proportionate share of net OPEB liability as a percentage of its covered payroll										103.20%
Plan fiduciary net position as a percentage of total OPEB liability										36.39%

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)
JUNE 30, 2018

	2027	2026	2025	2024	2023	2022	2021	2020	2019	2018
Statutorily required contributions										$ 455,043
Contributions in relation to statutorily required contributions *										455,043
Contribution deficiency (excess)										$ 0
Covered payroll										$ 6,260,851
Contributions as a percentage of covered payroll										7.27%

* Contributions in relation to statutorily contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED JUNE 30, 2018

A. Changes of Benefit Terms:

There were no changes of benefit terms for the plan year ended September 30, 2017.

B. Changes of Assumptions:

There were no changes of assumptions for the plan year ended September 30, 2017.

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES

JUNE 30, 2018

	FOOD SERVICE FUND	PUBLIC IMPROVEMENT FUND	2010 DEBT RETIREMENT FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS				
Cash	$ 169,713	$ 309,623	$ 119,986	$ 599,322
Accounts Receivable	893	2,000	0	2,893
Due from Other Funds	2,682	0	146	2,828
Due from Other Governments	21,227	0	0	21,227
Inventory	21,648	0	0	21,648
TOTAL ASSETS	$ 216,163	$ 311,623	$ 120,132	$ 647,918
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts Payable	$ 27,051	$ 0	$ 0	$ 27,051
Unearned Revenue	4,965	0	0	4,965
Total Liabilities	32,016	0	0	32,016
FUND BALANCE				
Nonspendable:				
Inventory	21,648	0	0	21,648
Restricted for:				
Food Service	162,499	0	0	162,499
Debt Service	0	0	120,132	120,132
Committed for:				
Public Improvements	0	311,623	0	311,623
Total Fund Balance	184,147	311,623	120,132	615,902
TOTAL LIABILITIES AND FUND BALANCE	$ 216,163	$ 311,623	$ 120,132	$ 647,918

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES

YEAR ENDED JUNE 30, 2018

	FOOD SERVICE FUND	PUBLIC IMPROVEMENT FUND	2010 DEBT RETIREMENT FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES				
Local Sources	$ 426,675	$ 245	$ 645,848	$ 1,072,768
State Sources	29,589	0	2,624	32,213
Federal Sources	528,280	0	0	528,280
Total Revenues	984,544	245	648,472	1,633,261
EXPENDITURES				
Operations and Maintenance	0	69,959	0	69,959
Pupil Transportation Services	0	75,055	0	75,055
Central Services	0	21,750	0	21,750
Food Service Activities	911,393	0	0	911,393
Facilities Acquisition	0	51,339	0	51,339
Debt Service				
Principal	0	0	605,000	605,000
Interest and Fees	0	0	49,625	49,625
Total Expenditures	911,393	218,103	654,625	1,784,121
Excess (Deficiency) of Revenues Over Expenditures	73,151	(217,858)	(6,153)	(150,860)
OTHER FINANCING SOURCES (USES)				
Transfers In	0	300,000	0	300,000
Transfers Out	(2,900)	0	0	(2,900)
Total Other Financing Sources (Uses)	(2,900)	300,000	0	297,100
Net Change In Fund Balances	70,251	82,142	(6,153)	146,240
FUND BALANCE - Beginning of Year	113,896	229,481	126,285	469,662
FUND BALANCE - End of Year	$ 184,147	$ 311,623	$ 120,132	$ 615,902

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

2010 REFUNDING BONDS

JUNE 30, 2018

TITLE OF ISSUE	Kingsley Area Schools, 2010 Refunding Bonds
PURPOSE	The bonds are being issued for the purpose of advance refunding a portion of the School District's outstanding 1999 School Building and Site Bonds dated June 1, 1999, which are due and payable May 1, 2011 through May 1, 2019, inclusive and May 1, 2020.
DATE OF ISSUE	March 31, 2010
REDEMPTION PRIOR TO MATURITY	The bonds are not subject to redemption prior to maturity.

AMOUNT OF ISSUE		$ 4,890,000
AMOUNT REDEEMED		
Prior to Current Year	$ 3,655,000	
Current Year	605,000	4,260,000
BALANCE OUTSTANDING - June 30, 2018		$ 630,000

DUE DATES	INTEREST RATES	REQUIREMENTS TOTAL	INTEREST	PRINCIPAL
November 1, 2018		$ 11,813	$ 11,813	
May 1, 2019	3.750%	641,812	11,812	$ 630,000
		$ 653,625	$ 23,625	$ 630,000