
Warren Woods Public Schools

**Financial Report
with Supplemental Information
June 30, 2018**

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Independent Auditor's Report

To the Board of Education
Warren Woods Public Schools

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Warren Woods Public Schools (the "School District") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Warren Woods Public Schools' 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 Warren Woods Public Schools as of June 30, 2018 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the basic financial statements, as of July 1, 2017, the School District adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The School District's unrestricted net position has been restated as of July 1, 2017 as a result of this change in accounting principle. Our opinion is not modified with respect to this matter.

To the Board of Education
Warren Woods Public Schools

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension and OPEB system schedules of funding progress and employer contributions, and the major fund budgetary comparison schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental 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 Supplemental Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2018 on our consideration of Warren Woods Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Warren Woods Public Schools' internal control over financial reporting and compliance.



August 17, 2018

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

Using this Annual Report

This annual report consists of a series of financial statements and notes to those financial statements. These statements are organized so the reader can understand Warren Woods Public Schools financially as a whole. The government-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term, as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds - the General Fund, Special Education Center Program Fund, and 2018 Capital Projects Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. This report is composed of the following elements:

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

Required Supplemental Information

Budgetary Information for Major Funds

Schedules of the School District's Proportionate Share of the Net Pension and OPEB Liabilities

Schedules of the School District's Pension and OPEB Contributions

Other Supplemental Information

Reporting the School District as a Whole - Government-wide Financial Statements

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

These two statements report the School District's net position - the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, as reported in the statement of net position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net position and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, food services, enrichment, student stores, debt retirement, and internal services. Property taxes, unrestricted state aid, and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service Fund is an example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects).

Governmental Funds

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

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Warren Woods Public Schools

Management's Discussion and Analysis (Continued)

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. The following table provides a summary of the School District's net position as of June 30, 2018 and 2017:

	Governmental Activities	
	2018	2017
	(in millions)	
Assets		
Current and other assets	\$ 35.4	\$ 14.6
Capital assets	41.7	41.8
Total assets	77.1	56.4
Deferred Outflows of Resources	14.9	10.3
Liabilities		
Current liabilities	7.3	5.0
Noncurrent liabilities	48.4	31.4
Net pension liability	61.2	58.5
Net OPEB liability	20.9	22.0
Total liabilities	137.8	116.9
Deferred Inflows of Resources	7.3	3.8
Net Position		
Net investment in capital assets	12.1	12.0
Restricted	0.2	0.1
Unrestricted	(65.4)	(66.1)
Total net position	\$ (53.1)	\$ (54.0)

The above analysis focuses on net position. The change in net position of the School District's governmental activities is discussed below. The School District's net position was a deficit of \$(53.1) million at June 30, 2018. Net investment in capital assets totaling \$12.1 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations. The remaining amount of net position (\$(65.4) million) was unrestricted.

The \$(65.4) million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

As required by the Government Accounting Standards Board (GASB), the School District adopted GASB Statement No. 75. This standard required the inclusion of the School District's proportionate share of the Michigan Public School Employees' Retirement System (MPERS) plan liability within the School District's financial statements, effective July 1, 2017. The effect of the adoption of this statement was to decrease July 1, 2017 beginning net position by \$21.1 million and to include the net OPEB liability and related deferred inflows and outflows of resources in the June 30, 2018 financial statements. All governments participating in the retirement plan were required to adopt this new standard.

Warren Woods Public Schools

Management's Discussion and Analysis (Continued)

The results of this year's operations for the School District as a whole are reported in the condensed statement of activities below, which shows the changes in net position for the years ending June 30, 2018 and 2017.

	Governmental Activities	
	2018	2017
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 2.1	\$ 1.6
Operating grants	12.8	11.3
General revenue:		
Taxes	6.3	6.2
State aid not restricted to specific purposes	23.9	24.0
Other	0.6	0.4
Total revenue	<u>45.7</u>	<u>43.5</u>
Expenses		
Instruction	22.2	20.6
Support services	15.4	14.4
Athletics	0.6	0.6
Food services	1.5	1.6
Child care	1.0	0.9
Debt service	1.2	1.2
Depreciation expense (unallocated)	2.9	2.6
Total expenses	<u>44.8</u>	<u>41.9</u>
Change in Net Position	0.9	1.6
Net Position - Beginning of year (2017 as previously reported)	(54.0)	(34.5)
Cumulative Effect of Change in Accounting	-	(21.1)
Net Position - Beginning of year	<u>(54.0)</u>	<u>(55.6)</u>
Net Position - End of year	<u><u>\$ (53.1)</u></u>	<u><u>\$ (54.0)</u></u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$44.8 million. Certain activities were partially funded from those who benefited from the programs (\$2.1 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$12.8 million). We paid for the remaining "public benefit" portion of our governmental activities with \$6.3 million in taxes, \$23.9 million in state foundation allowance, and with our other revenue (i.e., interest and general entitlements). The School District experienced an increase in net position of \$0.9 million. The School District experienced an increase in net position of \$0.9 million.

As discussed above, the net cost shows the financial burden that was placed on the state and the School District's taxpayers by each of these functions. Due to the impact of the Headlee Amendment, the School District's property tax levy has been reduced from the 18 mills on all nonhomestead property, which the School District is required to levy in order to receive the full state foundation allowance, to 17.7846 mills for a loss of approximately \$39,000. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

Warren Woods Public Schools

Management's Discussion and Analysis (Continued)

The expense portion of the table shows the financial support of each function required during the school year. Being in the business of educating children, the largest expense incurred is in instruction, which totals approximately 50.0 percent, or \$22.2 million, of the total expenses. Support services account for approximately 34.4 percent, or \$15.4 million of the total expense, which includes items such as transportation, maintenance, security, supervision, counseling, and a variety of similar services that support the School District's mission of educating children.

The School District's Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$28.4 million, which is an increase of \$18.6 million from last year. The primary reason for the increase was the issuance of the 2018 bonds.

In the General Fund, our principal operating fund, the fund balance increased by approximately \$367,000 to \$8.8 million. The fund balance remained relatively stable compared to the prior year. This amount helps to provide cash flow for needs during the months when aid is not received from the State.

Special revenue funds include the Special Education Center Program, Food Services, Child Care Program, and Bookstore Activities funds. The combined fund balance of the School District's special revenue funds increased from \$1.0 last year to \$1.5 million this year. The fund balance of the Food Services Fund decreased by \$12,078; however, the School District renovated the serving line at Tower High School last summer and the decrease in fund balance reflects a reinvestment of funds back into the program. The total year-end fund balance in the Food Services Fund is \$567,784. The Child Care Program fund balance increased by \$531,712; however, the School District is in the midst of reinvesting a portion of the fund balance into classroom renovations in the Early Childhood Center during the summer of 2018 that will utilize the majority of that increase. The Special Education Center Program did not carry a fund balance at either June 30, 2018 or 2017.

Combined, the fund balance of our debt service funds increased \$111,838. Warren Woods Public Schools determines the millage rates annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt service fund balances are reserved since they can only be used to pay debt service obligations.

Combined, the fund balance of our capital project funds increased \$17.6 million. This increase is primarily due to the School District's issuance of \$17.675 million in new voter-approved bonds during the current year and the sale of vacant land on the former Ridgewood Elementary school site. The bonds were issued in accordance with state law and will be used to improve school sites, including playgrounds, parking lots, and athletic facilities; remodel and upgrade school facilities; enhance school security and student safety; replace school buses as they reach the end of their useful life; and upgrade and replace technology and technology infrastructure.

General Fund Budgetary Highlights

By state law, the Warren Woods Public Schools Board of Education must approve a budget effective July 1 of each year.

Over the course of the year, the School District revises its budget to reflect changes between assumptions made during budget development and the actual data as they become available. Updates are made for items such as student enrollment, staffing levels, unanticipated changes in costs, and grant funding. State law requires that the budget be amended to ensure that expenditures do not exceed the board's authorized budget. The final amendment to the budget was adopted in June 2018. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Warren Woods Public Schools

Management's Discussion and Analysis (Continued)

There were significant revisions made to the 2017-2018 General Fund original budget. Budgeted revenue was increased by \$1.2 million due to an unexpected change in certain categorical revenue from the State, including several new forms of MPERS reimbursement and UAAL funding and a larger than anticipated increase in foundation allowance from the State. Those payments, however, were offset due to actual student enrollment less than original estimates. The School District also saw a significant increase on its investment earnings this year as it continued to diversify its investment portfolio to take advantage of increasing interest rates.

When comparing the final amended budget to actual for revenue, the final actual revenue was approximately \$77,000 under the projected amounts (0.23 percent). The actual revenue was under budget mainly due to state and federal grant awards and certain state and local grant programs not being spent in the time frame anticipated. For all grant-funded programs, an equal amount of expense was recognized, thus having no impact on the bottom line. Certain grants are funded on a 15-month cycle, but must be budgeted into the School District's fiscal year for reporting purposes; this cycle routinely creates carryover.

Budgeted expenditures were also decreased by approximately \$489,000 throughout the year to account for the decrease in salaries as new staff were hired to replace staff who had resigned and retired during the previous summer. Salaries were also adjusted to account for changes negotiated with the Districts three support staff bargaining units. Purchased professional services were reduced throughout the year resulting from the School District's revised operating plan due to the fluctuations in revenue.

Final expenditures were approximately \$442,000 under projected amounts (1.3 percent). A portion of the difference, approximately \$76,000, was due to local, state, and federal grant awards that were not spent in the time frame anticipated. In general, the rest of the net underspending is consistently distributed amongst all budgetary functions. There were no significant variances between the final budget and actual amounts. The School District's actual General Fund fund balance increased by approximately \$367,000 to \$8.8 million.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2018, the School District had \$41.7 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$0.1 million.

This year's additions of \$545,540 included a new maintenance vehicle, cafeteria equipment, technology, building renovations, and replacement furniture and equipment. Several major capital projects are planned for the 2018-2019 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$43.0 million in bonds outstanding versus \$28.3 million in the previous year. The increase was the result of issuing bonds during the year, as mentioned above.

The School District's general obligation bond rating is AA-. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. The School District's outstanding unqualified general obligation debt of \$43.0 million is significantly below this statutorily imposed limit.

Other obligations include accrued vacation pay and sick leave. The School District presents more detailed information about its long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Warren Woods Public Schools continues to have strong General Fund reserves; the total available fund balance is 23.45 percent of 2018 expenditures, including the Special Education Centers Program Fund. Revenue exceeded expenditures by \$366,652 in the 2017-2018 school year. The 2018-2019 year's budget anticipates the use of \$1.6 million from the fund balance. Continued attention will be focused on strong expenditure controls and close monitoring of revenue changes based on state funding and student count to help reduce this deficit spending.

Warren Woods Public Schools

Management's Discussion and Analysis (Continued)

The following factors will affect the School District in the future and were considered in preparing the School District's budget for fiscal year 2019:

The 2018-2019 budget was adopted in June 2018 based on an estimated number of students who will be enrolled from September 2018 through February 2019. Based on early enrollment projections at the end of the 2017-2018 school year, the School District anticipates that the fall student count will be down by approximately 52 FTE students, and that number was used to create the 2018-2019 budget. In an effort to sustain student enrollment and maximize funding from the State, Warren Woods Public Schools continues to provide opportunities to students throughout Macomb County through Schools of Choice. The School District has also budgeted for an anticipated Headlee rollback of its personal commercial and nonhomestead property tax collections since 2016-2017. The cumulative result of the rollbacks is a loss of approximately \$67,500 in 2018-2019.

The School District continues to find ways to deal with a reduced level of funding per student from the foundation allowance level of \$8,489 per student during the 2008-2009 fiscal year to the 2018-2019 budgeted level of \$8,137 per student. Due to the State's own overall economic decline, Michigan school districts have been allocated funding at less than inflationary increases over the past 13 years. This decrease is due to job losses, reductions in consumer spending, and reductions in property values, which, in turn, resulted in lower revenue from income, sales, and property taxes. Consequently, this limits funding available to public schools from its primary revenue source, the State of Michigan. Additionally, the School District has been challenged by increased fixed costs, such as retirement and health care.

The State School Aid Act for 2018-2019 was approved prior to the start of the fiscal year with a \$120 per pupil increase in the foundation allowance for Warren Woods Public Schools. The passthrough of the MPSERS UAAL funding through the School District also continues to affect the School District's financial statements and, at the time of the original budget adoption, the rate was assumed to be increasing from 11.32 percent to 12.21 percent, creating additional revenue and expenditures to be reported.

The impact of the 2018-2019 State School Aid Act, along with a projected decrease in enrollment of 52 students, shows revenue decreasing by \$420,000 from \$33.4 million in 2017-2018 to \$33.0 million in 2018-2019. Expenditures for 2018-2019 are estimated to be \$34.6 million and include adjusted teaching positions due to enrollment, caseloads, and student schedules. The School District is currently bargaining with its teachers and these numbers do not reflect any changes that may come as a result of that bargaining. Additional cost pressure continues to come from increases in the required public employer contributions to medical benefit plans for its employees, increases in utility rates, and increased costs to maintaining the School District's aging facilities.

In a declining enrollment environment, the School District will continue to face challenges to contain operational costs, with the added complexity of reducing the School District's programs to match the size of the student body. Prudent fiscal responsibility and cost containment remain critical to the School District's ability to effectively operate in this volatile and difficult economic climate. Opportunities to enhance revenue and control costs will be monitored on an ongoing basis. During the past eight years, the School District has made a series of budget adjustments to protect the financial future of its schools. To balance the budget, an estimated \$1.6 million contribution from fund balances will be used as a strategy to further reduce impact to programs and services.

Contacting the School District's Management

This financial report is intended to provide the School District's citizens, parents, and investors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the business office at 12900 Frazho Road, Warren, MI 48089.

Warren Woods Public Schools

Statement of Net Position

June 30, 2018

	Governmental Activities
Assets	
Cash and investments (Note 4)	\$ 8,289,660
Receivables:	
Accrued interest receivable	973
Accounts receivable	950,179
Due from other governments	6,238,457
Inventories	15,470
Prepaid costs and other assets	69,411
Restricted assets	19,784,810
Capital assets - Net (Note 6)	41,741,059
Total assets	77,090,019
Deferred Outflows of Resources	
Deferred charges on bond refunding (Note 8)	1,149,557
Deferred pension costs (Note 10)	12,646,116
Deferred OPEB costs (Note 10)	1,152,591
Total deferred outflows of resources	14,948,264
Liabilities	
Accounts payable	2,229,022
Due to other governmental units	453,925
Accrued liabilities and other	3,806,398
Unearned revenue (Note 5)	786,152
Noncurrent liabilities:	
Due within one year (Note 8)	3,634,498
Due in more than one year (Note 8)	44,825,222
Net pension liability (Note 10)	61,196,766
Net OPEB liability (Note 10)	20,895,606
Total liabilities	137,827,589
Deferred Inflows of Resources	
Revenue in support of pension contributions made subsequent to the report date	2,454,305
Deferred pension cost reductions (Note 10)	4,192,825
Deferred OPEB cost reductions (Note 10)	706,443
Total deferred inflows of resources	7,353,573
Net Position	
Net investment in capital assets	12,076,927
Restricted:	
Debt service	62,347
Capital projects	107,879
Unrestricted	(65,390,032)
Total net position	<u>\$ (53,142,879)</u>

Warren Woods Public Schools

Statement of Activities

Year Ended June 30, 2018

Functions/Programs	Program Revenue			Governmental
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Primary government - Governmental activities:				
Instruction	\$ 22,152,430	\$ 55,839	\$ 7,474,966	\$ (14,621,625)
Support services	15,370,851	-	4,025,044	(11,345,807)
Bookstores	18,392	24,990	-	6,598
Athletics	560,528	46,658	-	(513,870)
Food services	1,536,515	386,931	1,283,706	134,122
Child care	1,038,382	1,539,492	-	501,110
Interest	1,113,017	-	-	(1,113,017)
Other debt costs	66,810	-	-	(66,810)
Depreciation expense (unallocated)	2,936,041	-	-	(2,936,041)
Total primary government	\$ 44,792,966	\$ 2,053,910	\$ 12,783,716	(29,955,340)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				2,858,639
Property taxes, levied for debt service				3,488,001
State aid not restricted to specific purposes				23,858,320
Federal grants and contributions not restricted to specific purposes				38,482
Interest and investment earnings				222,580
Penalties, interest, and other taxes				3,090
Gain on sale of capital assets				256,423
Other				153,211
Total general revenue				30,878,746
Change in Net Position				923,406
Net Position - Beginning of year, as previously reported				(32,929,501)
Cumulative Effect of Change in Accounting				(21,136,784)
Net Position - Beginning of year				(54,066,285)
Net Position - End of year				\$ (53,142,879)

Warren Woods Public Schools

Governmental Funds Balance Sheet

June 30, 2018

	General Fund	Special Education Center Program Fund	2018 Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments (Note 4)	\$ 7,371,375	\$ -	\$ -	\$ 918,285	\$ 8,289,660
Receivables	6,239,430	-	-	938,726	7,178,156
Due from other funds (Note 7)	120,917	135,847	-	123,326	380,090
Inventories	-	-	-	15,470	15,470
Prepaid costs and other assets	69,411	-	-	-	69,411
Restricted assets	-	-	19,377,851	406,959	19,784,810
Total assets	\$ 13,801,133	\$ 135,847	\$ 19,377,851	\$ 2,402,766	\$ 35,717,597
Liabilities					
Accounts payable	\$ 221,885	\$ -	\$ 1,915,085	\$ 92,052	\$ 2,229,022
Due to other governmental units	453,863	-	-	62	453,925
Due to other funds (Note 7)	221,924	15,884	-	130,829	368,637
Accrued liabilities and other	3,461,786	-	-	-	3,461,786
Unearned revenue (Note 5)	664,981	119,963	-	1,208	786,152
Total liabilities	5,024,439	135,847	1,915,085	224,151	7,299,522
Fund Balances					
Nonspendable:					
Inventories	-	-	-	15,470	15,470
Prepaid costs	69,411	-	-	-	69,411
Restricted:					
Debt service	-	-	-	406,959	406,959
Capital projects (unspent bond proceeds)	-	-	17,462,766	-	17,462,766
Food service	-	-	-	552,652	552,652
Committed:					
Compensated absences	291,144	-	-	-	291,144
Child care	-	-	-	955,669	955,669
Bookstore	-	-	-	6,321	6,321
Tax tribunal cases	100,000	-	-	-	100,000
Assigned:					
Capital projects	-	-	-	241,544	241,544
Working capital	4,672,800	-	-	-	4,672,800
Subsequent year budget shortfall	1,613,621	-	-	-	1,613,621
Unassigned	2,029,718	-	-	-	2,029,718
Total fund balances	8,776,694	-	17,462,766	2,178,615	28,418,075
Total liabilities and fund balances	\$ 13,801,133	\$ 135,847	\$ 19,377,851	\$ 2,402,766	\$ 35,717,597

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position

June 30, 2018

Fund Balances Reported in Governmental Funds	\$ 28,418,075
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:	
Cost of capital assets	89,640,508
Accumulated depreciation	<u>(47,899,449)</u>
Net capital assets used in governmental activities	41,741,059
Deferred inflows and outflows related to bond refundings are not reported in the funds	1,149,557
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(48,168,576)
Accrued interest is not due and payable in the current period and is not reported in the funds	(344,612)
Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities:	
Employee compensated absences	(291,144)
Net pension liability and related deferred inflows and outflows	(52,743,475)
Net OPEB liability and related deferred inflows and outflows	(20,449,458)
Revenue in support of pension contributions made subsequent to the measurement date is reported as a deferred inflow of resources in the statement of net position and is not reported in the funds	<u>(2,454,305)</u>
Net Position of Governmental Activities	<u>\$ (53,142,879)</u>

Warren Woods Public Schools

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2018

	General Fund	Special Education Center Program Fund	2018 Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
Revenue					
Local sources	\$ 3,192,628	\$ -	\$ 107,879	\$ 5,478,924	\$ 8,779,431
State sources	27,770,726	1,590,852	-	164,795	29,526,373
Federal sources	1,522,959	-	-	1,320,400	2,843,359
Interdistrict and other sources	982,085	3,303,029	-	28,213	4,313,327
Total revenue	33,468,398	4,893,881	107,879	6,992,332	45,462,490
Expenditures					
Current:					
Instruction	19,212,412	2,180,898	-	-	21,393,310
Support services	12,862,124	2,013,709	78,052	1,889	14,955,774
Bookstores	-	-	-	18,392	18,392
Athletics	557,310	-	-	-	557,310
Food services	-	-	-	1,530,882	1,530,882
Child care	66,017	-	-	963,868	1,029,885
Debt service:					
Principal	-	-	-	3,030,000	3,030,000
Interest	-	-	-	1,112,668	1,112,668
Other debt costs	-	-	64,161	2,649	66,810
Capital outlay	326,401	123,616	2,893,003	407,452	3,750,472
Total expenditures	33,024,264	4,318,223	3,035,216	7,067,800	47,445,503
Excess of Revenue Over (Under) Expenditures	444,134	575,658	(2,927,337)	(75,468)	(1,983,013)
Other Financing Sources (Uses)					
Face value of debt issued	-	-	17,675,000	-	17,675,000
Proceeds from sale of capital assets	418	-	-	242,050	242,468
Premium on debt issued	-	-	2,715,103	-	2,715,103
Transfers in	675,658	-	-	828,562	1,504,220
Transfers out	(753,562)	(575,658)	-	(175,000)	(1,504,220)
Total other financing (uses) sources	(77,486)	(575,658)	20,390,103	895,612	20,632,571
Net Change in Fund Balances	366,648	-	17,462,766	820,144	18,649,558
Fund Balances - Beginning of year	8,410,046	-	-	1,358,471	9,768,517
Fund Balances - End of year	\$ 8,776,694	\$ -	\$ 17,462,766	\$ 2,178,615	\$ 28,418,075

Warren Woods Public Schools

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities

Year Ended June 30, 2018

Net Change in Fund Balance Reported in Governmental Funds	\$ 18,649,558
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	(86,915)
Revenue in support of pension contributions made subsequent to the measurement date	(667,459)
Issuing debt, net of premiums and discounts, provides current financial resources to governmental funds, but increases long-term liabilities in the statement of net position	(20,390,103)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt); amortization of premium/discounts and inflows/outflows related to bond refundings are not expenses in the governmental funds	3,187,464
Interest expense is recognized in the government-wide statements as it accrues	(157,813)
Some employee costs (pension, OPEB, compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	388,674
Change in Net Position of Governmental Activities	<u>\$ 923,406</u>

Warren Woods Public Schools

Fiduciary Funds Statement of Fiduciary Assets and Liabilities

June 30, 2018

	Student Activities
Assets - Cash and investments (Note 4)	\$ 461,922
Liabilities	
Due to student activities	\$ 450,469
Due to other funds (Note 7)	11,453
Total liabilities	\$ 461,922

June 30, 2018

Note 1 - Nature of Business

Warren Woods Public Schools (the "School District") is a school district in the state of Michigan that provides educational services to students.

Note 2 - Significant Accounting Policies

Accounting and Reporting Principles

The School District follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. In accordance with government accounting principles, there are no separate legal entities appropriate to be reported within these financial statements.

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units, as applicable. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue 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 statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants for goods, services, or privileges provided; and (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes, unrestricted intergovernmental receipts, and other items not properly included among program revenue are reported instead as general revenue.

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

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

Note 2 - Significant Accounting Policies (Continued)

Fund Accounting

The School District accounts for its various activities in several different funds in order to demonstrate accountability for how it spends certain resources; separate funds allow the School District to show the particular expenditures for which specific revenue is used. The various funds are aggregated into three broad fund types:

Governmental Funds

Governmental funds include all activities that provide general governmental services that are not business-type activities. Governmental funds can include the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds. The School District reports the following funds as “major” governmental funds:

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide government services other than those specifically assigned to another fund.
- The Special Education Center Program Fund is used to record special education millage revenue from the intermediate school district, state revenue related to special education, and disbursements associated with special education center programs administered by the School District on behalf of the intermediate school district.
- The 2018 Capital Projects Fund is used to record the 2018 bond proceeds and expenditures related to voter-approved capital improvements.

Additionally, the School District reports the following nonmajor governmental fund types:

- Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes.
- Capital projects funds are used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, technology upgrades, and for remodeling and repairs. The funds operate until the purpose for which they were created is accomplished.
- Debt service funds are used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on long-term debt.

Fiduciary Funds

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts are not used to operate the School District’s programs. The School District maintains a student activity agency fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Interfund Activity

During the course of operations, the School District 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 (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Note 2 - Significant Accounting Policies (Continued)

Furthermore, 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.

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the School District has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the School District considers amounts collected within 60 days of year end to be available for recognition. Revenue not meeting this definition is classified as a deferred inflow of resources.

Proprietary funds and fiduciary funds, as applicable, use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows.

Specific Balances and Transactions

Cash and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value except for investments in external investment pools, which are valued at amortized cost.

Inventories and Prepaid Items

Inventories are valued at cost, on a first-in, first-out basis. Inventories accounted for using the purchase method are recorded as expenditures when purchased and include all inventories of governmental funds other than commodities within the Food Services Fund. Inventories accounted for using the consumption method are recorded as expenditures when consumed rather than when purchased and include commodities within the Food Services Fund. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements, when applicable.

Restricted Assets

The following amounts are reported as restricted assets:

- Unspent bond proceeds and related interest of the bonded capital projects funds required to be set aside for construction or other allowable bond purchases
- Unspent property taxes levied held in the debt service funds required to be set aside for future bond principal and interest payments

Note 2 - Significant Accounting Policies (Continued)

Capital Assets

Capital assets are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

	Depreciable Life - Years
Buildings and improvements	20 to 50 years
Furniture and equipment	5 to 10 years
Buses and other vehicles	5 to 10 years
Land improvements	20 years

Long-term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances and premiums as an "other financing source" and bond discounts as "other financing uses." The General Fund and debt service funds are generally used to liquidate governmental long-term debt.

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 represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until then.

The School District reports deferred outflows related to deferred charges on refundings and deferred charges on refundings and deferred pension and OPEB plan costs.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

The School District reports deferred inflows related to revenue in support of pension contributions made subsequent to the measurement date and deferred pension and OPEB plan cost reductions.

Net Position

Net position of the School District is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Note 2 - Significant Accounting Policies (Continued)

Net Position Flow Assumption

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

Fund Balance Flow Assumptions

The School District will sometimes 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 School District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, 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.

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 nonspendable fund balance component represents amounts that are not in spendable form or are legally or contractually required to be maintained intact. Restricted fund balance represents amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose. The School 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 School District's highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the School District that can, by passing a resolution prior to the end of the fiscal year, commit fund balance. Once passed, the limitation imposed by the resolution remains in place until a similar action is taken (the passing of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The School District has, by resolution, authorized the Board of Education or superintendent to assign fund balance. The Board of Education 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.

The fund balance policy prescribes the minimum fund balance as 15 percent of expenditures in the General Fund. This is deemed to be the prudent amount to maintain the School District's ability to meet obligations as they come due throughout the year. If the total fund balance of the General Fund falls below the goal, it shall be recovered at a rate of at least 1 percent each year.

Note 2 - Significant Accounting Policies (Continued)

Property Tax Revenue

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are billed on July 1 for approximately 50 percent of the taxes and on December 1 for the remainder of the property taxes. Taxes are considered to be delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls. All property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Grants and Contributions

The School District receives federal, state, and local grants, as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

Pension and Other Postemployment Benefit (OPEB) Plans

For purposes of measuring the net pension and net OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to each plan, and pension and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expenses when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value.

Compensated Absences (Vacation and Sick Leave)

It is the School District's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Sick pay is accrued for the estimated amount that the School District will pay upon employment termination; vacation pay is accrued when incurred. Both of these are reported in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. Generally, the funds that report each employee's compensation are used to liquidate the obligations.

Use of Estimates

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

Note 2 - Significant Accounting Policies (Continued)

Adoption of New Accounting Pronouncements

As of July 1, 2017, the School District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard requires the School District to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS OPEB plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

In accordance with the statement, the School District has reported a net OPEB liability of \$22,040,235, deferred outflows of financial resources for OPEB contributions of \$1,567,691 made subsequent to the measurement date, and deferred inflows of financial resources for revenue received from State Aid in support of OPEB contributions of \$664,918 that was received subsequent to the measurement date, as the effects of these changes in accounting principles on the School District's net position as of July 1, 2017.

Upcoming Accounting Pronouncements

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2020.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. 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. The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2021.

Note 3 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and all special revenue funds, except that transfers in and transfers out are reported net and capital outlay expenditures are reported in other functional expenditure categories. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The School District amended the General Fund and Special Education Center Program Fund budgeted amounts during the year to reflect changes in funding from state and federal sources.

Note 3 - Stewardship, Compliance, and Accountability (Continued)

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g. purchase orders, contracts) are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds

The School District did not have significant expenditure budget variances.

Capital Projects Fund Compliance

The 2018 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project fund, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

Note 4 - Deposits and Investments

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, certificates of deposit, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits and investments are in accordance with statutory authority.

The School District has designated five financial institutions for the deposits and investments of its funds.

There are no limitations or restrictions on participant withdrawals for the investment pools that are recorded at amortized cost except for a one-day minimum investment period on MILAF cash management funds and a 14-day redemption limitation on MILAF MAX Class funds.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At year end, the School District had \$2,817,842 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does not have a policy for custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity.

Note 4 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices. The School District's investment in the Michigan Liquid Asset Fund, which totaled \$25,829,082 at June 30, 2018, has an S&P rating of AAAm.

Concentration of Credit Risk

The School District places no limit on the amount it may invest in any one issuer. At June 30, 2018, all of the School District's investments are in the Michigan Liquid Asset Fund and, therefore, are the only investment type subject to concentration of credit risk.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the School District's investment policy prohibit investments in foreign currency.

Note 5 - Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned.

At June 30, 2018, the School District had no unavailable revenue and approximately \$786,000 of unearned revenue, primarily related to categorical aid payments received prior to meeting all eligibility requirements.

Note 6 - Capital Assets

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

	Balance July 1, 2017	Reclassificatio ns	Additions	Disposals and Adjustments	Balance June 30, 2018
Capital assets not being depreciated:					
Land	\$ 4,000	\$ -	\$ -	\$ -	\$ 4,000
Construction in progress	37,077	(37,077)	2,326,708	-	2,326,708
Subtotal	41,077	(37,077)	2,326,708	-	2,330,708
Capital assets being depreciated:					
Buildings and improvements	69,709,553	37,077	184,005	-	69,930,635
Furniture and equipment	10,773,564	-	266,658	(98,246)	10,941,976
Buses and other vehicles	1,465,304	-	57,800	-	1,523,104
Land improvements	4,914,085	-	-	-	4,914,085
Subtotal	86,862,506	37,077	508,463	(98,246)	87,309,800
Accumulated depreciation:					
Buildings and improvements	31,878,026	-	2,395,990	(16,976)	34,257,040
Furniture and equipment	9,501,358	-	233,888	(95,225)	9,640,021
Buses and other vehicles	1,065,794	-	97,471	-	1,163,265
Land improvements	2,630,431	-	208,692	-	2,839,123
Subtotal	45,075,609	-	2,936,041	(112,201)	47,899,449
Net capital assets being depreciated	41,786,897	37,077	(2,427,578)	13,955	39,410,351
Net governmental activities capital assets	<u>\$ 41,827,974</u>	<u>\$ -</u>	<u>\$ (100,870)</u>	<u>\$ 13,955</u>	<u>\$ 41,741,059</u>

Depreciation expense was not charged to activities, as the School District considers its assets to impact multiple activities and allocation is not practical.

Construction Commitments

The School District has active construction projects at year end relating to the 2018 bond issue and Child Care program. At year end, the School District's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
2018 Capital Projects Fund	\$ 3,035,216	\$ 2,784,108
Child Care	89,688	302,547
Total	<u>\$ 3,124,904</u>	<u>\$ 3,086,655</u>

June 30, 2018

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due From	Fund Due To			Total
	General Fund	Special Education Center Program Fund	Nonmajor Funds	
General Fund	\$ -	\$ 120,478	\$ 101,446	\$ 221,924
Special Education Center Program Fund	-	-	15,884	15,884
Nonmajor governmental funds	112,900	15,369	2,560	130,829
Agency Fund	8,017	-	3,436	11,453
Total	\$ 120,917	\$ 135,847	\$ 123,326	\$ 380,090

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Receiving Fund (Transfer in)	Paying Fund (Transfer out)	Amount
General Fund	Special Education Center Program Fund	\$ 575,658
	Nonmajor funds	100,000
Nonmajor funds	General Fund	753,562
	Nonmajor funds	75,000
Total		\$ 1,504,220

Transfers from the General Fund provided funding for debt service payments on nonvoted bond and various capital projects. Funds from the Food Services Fund, Child Care Program Fund, and Special Education Center Program Fund were transferred to the General Fund to cover excess costs related to operations of the funds for the purposes for which they were created. Transfers from the Child Care Program to the Building and Site Fund provided funding for and various child care capital projects.

Note 8 - Long-term Debt

Long-term debt activity for the year ended June 30, 2018 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
General obligations	\$ 28,335,000	\$ 17,675,000	\$ (3,030,000)	\$ 42,980,000	\$ 3,150,000
Unamortized bond premiums	2,785,957	2,715,103	(312,484)	5,188,576	455,384
Total bonds payable	31,120,957	20,390,103	(3,342,484)	48,168,576	3,605,384
Compensated absences	292,174	-	(1,030)	291,144	29,114
Total governmental activities long-term debt	\$ 31,413,131	\$ 20,390,103	\$ (3,343,514)	\$ 48,459,720	\$ 3,634,498

The School District had deferred outflows of \$1,149,557 related to deferred charges on bond refundings at June 30, 2018.

June 30, 2018

Note 8 - Long-term Debt (Continued)

General Obligation Bonds and Contracts

The School District issues general obligation bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds have been issued for governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. General obligations outstanding at June 30, 2018 are as follows:

	Remaining Annual Installments	Interest Rate(s) (Percent)	Maturing May 1	Outstanding
\$2,000,000 general obligation limited tax bonds (2012)	\$180,000 - \$185,000	3.00 - 3.60*	2024	\$ 1,100,000
\$7,515,000 general obligation limited tax bonds (2014)	\$725,000 - \$840,000	2.00 - 3.00	2025	5,470,000
\$19,595,000 general obligation unlimited tax and refunding bonds (2015)	\$1,725,000 - \$2,385,000	5.00	2026	16,295,000
\$2,945,000 general obligation unlimited tax and refunding bonds (2016)	\$470,000 - \$510,000	2.05	2023	2,440,000
\$17,675,000 general obligation unlimited tax bonds (2018)	\$50,000 - \$1,860,000	3.00 - 5.00	2037	<u>17,675,000</u>
Total governmental activities				<u>\$ 42,980,000</u>

*Partially subsidized

Other Long-term Liabilities

Compensated absences attributable to the governmental activities will be liquidated from the funds from which the individual employee's salaries are paid.

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above bond obligations are as follows:

Years Ending June 30	Governmental Activities		
	Principal	Interest*	Total
2019	\$ 3,150,000	\$ 2,015,962	\$ 5,165,962
2020	3,670,000	1,775,786	5,445,786
2021	3,785,000	1,641,796	5,426,796
2022	3,440,000	1,495,852	4,935,852
2023	3,575,000	1,363,506	4,938,506
2024-2028	11,360,000	4,849,450	16,209,450
2029-2033	7,040,000	2,829,750	9,869,750
2034-2037	6,960,000	1,315,250	8,275,250
Total	<u>\$ 42,980,000</u>	<u>\$ 17,287,352</u>	<u>\$ 60,267,352</u>

*Interest presented net of maximum potential interest subsidy

Note 9 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical claims and participates in the SET-SEG risk pool for claims relating to workers' compensation, general liability, and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The SET-SEG shared risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Michigan Public School Employees' Retirement System

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPSERS or the "System"), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. Certain school district employees also receive defined contribution retirement and healthcare benefits through the System. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The System is administered by the Office of Retirement Services (ORS). The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System (ORS) at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Benefits Provided

Benefit provisions of the defined benefit (DB) pension plan and 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 for the defined benefit pension plan and the postemployment healthcare plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of services times a pension factor ranging from 1.25 percent to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced to 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Depending on the member's date of hire, MPSERS offers the option of participating in the defined contribution (DC) plan that provides a 50 percent employer match (up to 3 percent of salary) on employee contributions.

Members are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100 percent of the participant's final average compensation, with an increase of 2 percent each year thereafter.

Note 10 - Michigan Public School Employees' Retirement System (Continued)

Benefits may transfer to a beneficiary upon death and are determined in the same manner as retirement benefits, but with an actuarial reduction.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. For some members who do not receive an annual increase, they are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

MPSERS provides medical, prescription drug, dental, and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by MPSERS with the balance deducted from the monthly pension of each retiree healthcare recipient. Depending on the member's date of hire, this subsidized portion ranges from 80 percent to the maximum allowed by the statute.

Contributions

Public Act 300 of 1980, as amended, required the School District to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by state statute and may be amended only by action of the State Legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

Under the OPEB plan, retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits. Participating employers are required to contribute at that rate.

Under Public Act 300 of 2012, members were given the choice between continuing the 3 percent contribution to the retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3 percent 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 percent employee contribution into their 457 account as of their transition date, earning them a 2 percent employer match into a 401(k) account. Members who selected this option stop paying the 3 percent contribution to the retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

The School District's contributions are determined based on employee elections. There are multiple different pension and healthcare benefit options included in the plan available to employees based on date of hire and the elections available at that time. Contribution rates are adjusted annually by the ORS.

The range of rates is as follows:

	Pension	OPEB
October 1, 2017 - January 31, 2018	13.54% - 17.89%	7.42% - 7.67%
February 1, 2018 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%

Depending on the plan selected, member pension contributions range from 0 percent up to 7.0 percent of gross wages. For certain plan members, a 4 percent employer contribution to the defined contribution pension plan is required. In addition, for certain plan members, a 3 percent employer match is provided to the defined contribution pension plan.

Note 10 - Michigan Public School Employees' Retirement System (Continued)

The School District's required and actual pension contributions to the plan for the year ended June 30, 2018 were \$6,473,306, which include the School District's contributions required for those members with a defined contribution benefit. The School District's required and actual pension contributions include an allocation of \$2,454,305 in revenue received from the State of Michigan, and remitted to the System, to fund the MPERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended June 30, 2018. For the year ended June 30, 2018, the contributions also include a one-time payment to the School District received under Section 147c(2) of the State Aid act, which the School District then remitted as a contribution to the plan.

The School District's required and actual OPEB contributions to the plan for the year ended June 30, 2018 were \$1,534,998, which include the School District's contributions required for those members with a defined contribution benefit.

Net Pension Liability

At June 30, 2018, the School District reported a liability of \$61,196,766, 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 as of September 30, 2016, which used updated procedures to roll forward the estimated liability to September 30, 2017. The School 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 School District's proportion was 0.24 percent.

Net OPEB Liability

At June 30, 2018, the School District reported a liability of \$20,895,606, for its proportionate share of the net OPEB liability. The net OPEB liability for fiscal year 2018 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 as of September 30, 2016, which used updated procedures to roll forward the estimated liability to September 30, 2017. The School 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 School District's proportion was 0.24 percent of MPERS in total.

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

For the year ended June 30, 2018, the School District recognized pension expense of \$6,097,335, inclusive of payments to fund the MPERS UAAL stabilization rate. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 531,842	\$ (300,280)
Changes in assumptions	6,704,592	-
Net difference between projected and actual earnings on pension plan investments	-	(2,925,608)
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	421,193	(966,937)
The School District's contributions to the plan subsequent to the measurement date	4,988,489	-
Total	<u>\$ 12,646,116</u>	<u>\$ (4,192,825)</u>

Note 10 - Michigan Public School Employees' Retirement System (Continued)

The \$2,454,305 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to the UAAL payment will be recognized as state appropriations revenue for the year ended June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending	Amount
2019	\$ 869,054
2020	1,884,472
2021	792,162
2022	(80,886)
Total	<u>\$ 3,464,802</u>

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

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

For the year ended June 30, 2018, the School District recognized OPEB expense of \$1,397,653.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (222,477)
Net difference between projected and actual earnings on OPEB plan investments	-	(483,947)
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	-	(19)
Employer contributions to the plan subsequent to the measurement date	<u>1,152,591</u>	<u>-</u>
Total	<u>\$ 1,152,591</u>	<u>\$ (706,443)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (note that employer contributions subsequent to the measurement date will reduce the net OPEB liability and, therefore, will not be included in future pension expense):

Years Ending	Amount
2019	\$ (170,713)
2020	(170,713)
2021	(170,713)
2022	(170,713)
2023	(23,591)
Total	<u>\$ (706,443)</u>

Note 10 - Michigan Public School Employees' Retirement System (Continued)

Actuarial Assumptions

The total pension liability and total OPEB liability as of September 30, 2017 is based on the results of an actuarial valuation as of September 30, 2016 and rolled forward. The total pension liability was determined using the following actuarial assumptions:

Actuarial cost method		Entry age normal cost actuarial cost method
Investment rate of return - Pension	7.00% - 7.50%	Net of investment expenses based on the groups
Investment rate of return - OPEB	7.50%	Net of investment expenses based on the groups
Salary increases	3.50% - 12.30%	Including wage inflation of 3.50 percent
Healthcare cost trend rate	7.50%	Year 1 graded to 3.5 percent year 12
Mortality basis		RP2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost-of-living pension adjustments	3.00%	Annual noncompounded for MIP members

Assumption changes as a result of an experience study for the periods 2007 to 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

Discount Rate

The discount rate used to measure the total pension liability was 7.00 - 7.50 percent and 7.00 - 8.00 percent as of September 30, 2017 depending on the plan option. The discount rate used to measure the total OPEB liability was 7.50 percent as of September 30, 2017. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that district contributions will be made at statutorily required rates.

Based on those assumptions, the pension plan's fiduciary net position and the OPEB plan's fiduciary net position were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total OPEB liability.

The long-term expected rate of return on pension plan and OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.00 %	5.60 %
Private equity pools	18.00	8.70
International equity pools	16.00	7.20
Fixed-income pools	10.50	(0.10)
Real estate and infrastructure pools	10.00	4.20
Real return, opportunistic, and absolute pool	15.50	5.00
Short-term investment pools	2.00	(0.90)
Total	100.00 %	

Note 10 - Michigan Public School Employees' Retirement System (Continued)

MPSERS approved a decrease in the discount rate for the September 30, 2017 annual actuarial valuation for the pension plan and the OPEB plan to 7.05 percent and 7.15 percent, respectively. As a result, the actuarial computed employer contributions, the net pension liability, and net OPEB liability will increase for the measurement period ending September 30, 2018.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the School District, calculated using the discount rate depending on the plan option. The following also reflects what the School District's net pension 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 Percent Decrease (6.00 - 6.50%)	Current Discount Rate (7.00 - 7.50%)	1 Percent Increase (8.00 - 8.50%)
Net pension liability of the School District	\$ 79,719,031	\$ 61,196,766	\$ 45,602,198

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the School District, calculated using the current discount rate. It also reflects what the School District's 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 Percent Decrease (6.50%)	Current Discount Rate (7.50%)	1 Percent Increase (8.50%)
Net OPEB liability of the School District	\$ 24,474,794	\$ 20,895,606	\$ 17,857,996

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

The following presents the net OPEB liability of the School District, calculated using the current healthcare cost trend rate. It also reflects what the School District's net OPEB 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 Percent Decrease (6.50%)	Current Discount Rate (7.50%)	1 Percent Increase (8.50%)
Net OPEB liability of the School District	\$ 17,695,769	\$ 20,895,606	\$ 24,528,797

Pension Plan and OPEB Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued MPSERS financial report.

Payable to the Pension Plan and OPEB Plan

At June 30, 2018, the School District reported a payable of \$1,032,132 and \$266,384 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2018.

June 30, 2018

Note 11 - Tax Abatements

The School District receives reduced property tax revenue as a result of Industrial Facilities Tax exemptions (PA 198 of 1974) and Brownfield Redevelopment Agreements granted by cities within the boundaries of the School District. Industrial facility exemptions are intended to promote construction of new industrial facilities or to rehabilitate historical facilities; Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties.

For the fiscal year ended June 30, 2018, the School District's property tax revenue was reduced by approximately \$125,000 under these programs.

The School District is reimbursed for lost revenue caused by tax abatements on the operating millage of nonhomestead properties from the State of Michigan under the School Aid formula. The School District received approximately \$91,000 in reimbursements from the State of Michigan. The School District is not reimbursed for lost revenue from debt service millages. There are no abatements made by the School District.

Required Supplemental Information

Warren Woods Public Schools

Required Supplemental Information Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2018

	Original Budget	Final Budget	Actual
Revenue			
Local sources	\$ 3,012,250	\$ 3,183,946	\$ 3,192,628
State sources	26,727,709	27,815,810	27,770,726
Federal sources	1,668,147	1,572,954	1,522,959
Interdistrict and other sources	904,645	973,043	982,085
Total revenue	32,312,751	33,545,753	33,468,398
Expenditures - Current			
Instruction:			
Basic program	16,163,039	15,573,375	15,495,669
Added needs	3,415,186	3,762,169	3,742,993
Adult and continuing education	318,704	276,503	265,820
Total instruction	19,896,929	19,612,047	19,504,482
Support services:			
Pupil	2,828,221	2,861,697	2,824,565
Instructional staff	1,637,851	1,596,092	1,544,213
General administration	515,040	496,502	468,570
School administration	2,124,204	2,102,502	2,079,647
Business services	666,307	622,455	606,241
Operations and maintenance	3,716,969	3,697,049	3,590,890
Transportation	729,733	605,526	580,039
Central support services	858,058	873,327	850,246
Other support services	396,449	418,461	410,651
Athletics	585,240	580,360	564,720
Total expenditures	33,955,001	33,466,018	33,024,264
Excess of Revenue (Under) Over Expenditures	(1,642,250)	79,735	444,134
Other Financing Uses - Transfers out and other - Net	(17,723)	(189,756)	(77,486)
Net Change in Fund Balance	(1,659,973)	(110,021)	366,648
Fund Balance - Beginning of year	8,410,046	8,410,046	8,410,046
Fund Balance - End of year	<u>\$ 6,750,073</u>	<u>\$ 8,300,025</u>	<u>\$ 8,776,694</u>

Warren Woods Public Schools

Required Supplemental Information Budgetary Comparison Schedule - Special Education Center Program Fund

Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenue			
State sources	\$ 1,676,051	\$ 1,590,852	\$ 1,590,852
Interdistrict and other sources	3,392,917	3,210,658	3,303,029
Total revenue	5,068,968	4,801,510	4,893,881
Expenditures - Current			
Instruction - Added needs	2,262,729	2,203,143	2,192,670
Support services:			
Pupil	1,771,802	1,720,911	1,715,161
Instructional staff	313,968	294,305	292,575
Operations and maintenance	111,962	111,844	111,844
Transportation	19,950	7,500	5,973
Total expenditures	4,480,411	4,337,703	4,318,223
Excess of Revenue Over Expenditures	588,557	463,807	575,658
Other Financing Uses - Transfers out - Net	(588,557)	(463,807)	(575,658)
Net Change in Fund Balance	-	-	-
Fund Balance - Beginning of year	-	-	-
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Warren Woods Public Schools

Required Supplemental Information Schedule of the School District's Proportionate Share of the Net Pension Liability Michigan Public School Employees' Retirement System

Last Four Plan Years Plan Years Ended September 30

	2017	2016	2015	2014
School District's proportion of the net pension liability	0.23615 %	0.23436 %	0.24120 %	0.24020 %
School District's proportionate share of the net pension liability	\$ 61,196,766	\$ 58,471,626	\$ 58,919,322	\$ 52,908,682
School District's covered employee payroll	\$ 19,956,386	\$ 19,589,242	\$ 20,159,703	\$ 20,435,231
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	306.65 %	298.49 %	292.26 %	258.91 %
Plan fiduciary net position as a percentage of total pension liability	63.96 %	63.01 %	62.92 %	66.20 %

Warren Woods Public Schools

Required Supplemental Information Schedule of the School District's Pension Contributions Michigan Public School Employees Retirement System

	Last Four Fiscal Years			
	Years Ended June 30			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 5,920,103	\$ 5,724,529	\$ 5,567,852	\$ 4,414,076
Contributions in relation to the statutorily required contribution	<u>5,920,103</u>	<u>5,724,529</u>	<u>5,567,852</u>	<u>4,414,076</u>
Contribution Deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's Covered Employee Payroll	\$ 20,214,242	\$ 20,713,745	\$ 19,807,674	\$ 20,167,108
Contributions as a Percentage of Covered Employee Payroll	29.29 %	27.64 %	28.11 %	21.89 %

Warren Woods Public Schools

Required Supplemental Information Schedule of the School District's Proportionate Share of the Net OPEB Liability Michigan Public School Employees' Retirement System

Plan Year Ended September 30, 2017

School District's proportion of the net OPEB liability (asset)	0.23596 %
School District's proportionate share of the net OPEB liability (asset)	\$ 20,895,606
School District's covered employee payroll	\$ 19,956,386
School District's proportionate share of the net OPEB liability (asset) as a percentage of its covered employee payroll	104.71 %
Plan fiduciary net position as a percentage of total OPEB liability	36.53 %

Note: GASB Statement No. 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Warren Woods Public Schools

Required Supplemental Information Schedule of OPEB Contributions Michigan Public School Employees' Retirement System

Year Ended June 30, 2018

Statutorily required contribution	\$ 1,449,484
Contributions in relation to the statutorily required contribution	<u>1,449,484</u>
Contribution Deficiency	<u>\$ -</u>
School District's Covered Employee Payroll	\$ 20,214,242
Contributions as a Percentage of Covered Employee Payroll	7.17 %

Pension Information

Benefit Changes

There were no changes of benefit terms in 2017.

Changes in Assumptions

On February 23, 2017, MPSERS approved a decrease in the discount rate for the September 30, 2016 annual actuarial valuation of 0.5 percent to 7.00-7.50 percent based on the group.

Changes in Size or Composition of the Covered Population

There were no significant changes in size or composition of the covered population in 2017.

OPEB Information

Benefit Changes

There were no changes of benefit terms in 2017.

Changes in Assumptions

There were no changes of benefit assumptions in 2017.

Other Supplemental Information

Warren Woods Public Schools

	Special Revenue Funds			Debt Service Funds		
	Bookstore Activities	Food Services	Child Care Program	2012 Issue	2014 Refunding	2015 Refunding
Assets						
Cash and investments	\$ 61	\$ 584,628	\$ -	\$ -	\$ -	\$ -
Receivables	-	77,516	861,210	-	-	-
Due from other funds	6,260	21,040	96,026	-	-	-
Inventories	338	15,132	-	-	-	-
Restricted assets	-	-	-	-	93,564	313,282
Total assets	\$ 6,659	\$ 698,316	\$ 957,236	\$ -	\$ 93,564	\$ 313,282
Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other governmental units	-	62	-	-	-	-
Due to other funds	-	129,262	1,567	-	-	-
Unearned revenue	-	1,208	-	-	-	-
Total liabilities	-	130,532	1,567	-	-	-
Fund Balances						
Nonspendable - Inventories	338	15,132	-	-	-	-
Restricted:						
Debt service	-	-	-	-	93,564	313,282
Food service	-	552,652	-	-	-	-
Committed:						
Child care	-	-	955,669	-	-	-
Bookstore	6,321	-	-	-	-	-
Assigned - Capital replacements	-	-	-	-	-	-
Total fund balances	6,659	567,784	955,669	-	93,564	313,282
Total liabilities and fund balances	\$ 6,659	\$ 698,316	\$ 957,236	\$ -	\$ 93,564	\$ 313,282

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2018

Debt Service Funds	Capital Project Funds	
2016 Refunding	Building and Site	Total
\$ -	\$ 333,596	\$ 918,285
-	-	938,726
-	-	123,326
-	-	15,470
113	-	406,959
\$ 113	\$ 333,596	\$ 2,402,766
\$ -	\$ 92,052	\$ 92,052
-	-	62
-	-	130,829
-	-	1,208
-	92,052	224,151
-	-	15,470
113	-	406,959
-	-	552,652
-	-	955,669
-	-	6,321
-	241,544	241,544
113	241,544	2,178,615
\$ 113	\$ 333,596	\$ 2,402,766

Warren Woods Public Schools

	Special Revenue Funds			Debt Service Funds		
	Bookstore Activities	Food Services	Child Care Program	2012 Issue	2014 Refunding	2015 Refunding
Revenue						
Local sources	\$ 24,990	\$ 399,331	\$ 1,539,492	\$ 66	\$ 868,408	\$ 2,646,523
State sources	-	104,068	60,727	-	-	-
Federal sources	-	1,281,918	-	38,482	-	-
Interdistrict and other sources	-	28,213	-	-	-	-
Total revenue	24,990	1,813,530	1,600,219	38,548	868,408	2,646,523
Expenditures						
Current:						
Support services	-	-	-	-	-	-
Bookstores	18,392	-	-	-	-	-
Food services	-	1,530,882	-	-	-	-
Child care	-	-	963,868	-	-	-
Debt service:						
Principal	-	-	-	180,000	690,000	1,700,000
Interest	-	-	-	41,268	163,450	848,500
Other debt costs	-	-	-	650	499	751
Capital outlay	-	219,726	4,639	-	-	-
Total expenditures	18,392	1,750,608	968,507	221,918	853,949	2,549,251
Excess of Revenue Over (Under) Expenditures	6,598	62,922	631,712	(183,370)	14,459	97,272
Other Financing Sources (Uses)						
Proceeds from sale of capital assets	-	-	-	-	-	-
Transfers in	-	-	-	183,370	-	-
Transfers out	-	(75,000)	(100,000)	-	-	-
Total other financing sources (uses)	-	(75,000)	(100,000)	183,370	-	-
Net Change in Fund Balances	6,598	(12,078)	531,712	-	14,459	97,272
Fund Balances - Beginning of year	61	579,862	423,957	-	79,105	216,010
Fund Balances - End of year	\$ 6,659	\$ 567,784	\$ 955,669	\$ -	\$ 93,564	\$ 313,282

Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds

Year Ended June 30, 2018

Debt Service Funds	Capital Project Funds	Total
2016 Refunding	Building and Site	
\$ 114	\$ -	\$ 5,478,924
-	-	164,795
-	-	1,320,400
-	-	28,213
<u>114</u>	<u>-</u>	<u>6,992,332</u>
-	1,889	1,889
-	-	18,392
-	-	1,530,882
-	-	963,868
460,000	-	3,030,000
59,450	-	1,112,668
749	-	2,649
-	183,087	407,452
<u>520,199</u>	<u>184,976</u>	<u>7,067,800</u>
(520,085)	(184,976)	(75,468)
-	242,050	242,050
520,192	125,000	828,562
-	-	(175,000)
<u>520,192</u>	<u>367,050</u>	<u>895,612</u>
107	182,074	820,144
<u>6</u>	<u>59,470</u>	<u>1,358,471</u>
<u>\$ 113</u>	<u>\$ 241,544</u>	<u>\$ 2,178,615</u>

Warren Woods Public Schools

Other Supplemental Information Schedule of Bonded Indebtedness

June 30, 2018

Year Ended June 30	2012 Issue	2014	2015	2016	2018 Capital	Total
	(Nonvoted)	Refunding	Refunding	Refunding	Projects	
	Principal	Principal	Principal	Principal	Principal	
2019	\$ 180,000	\$ 725,000	\$ 1,725,000	\$ 470,000	\$ 50,000	\$ 3,150,000
2020	180,000	720,000	1,815,000	480,000	475,000	3,670,000
2021	185,000	750,000	1,890,000	485,000	475,000	3,785,000
2022	185,000	790,000	1,970,000	495,000	-	3,440,000
2023	185,000	810,000	2,070,000	510,000	-	3,575,000
2024	185,000	835,000	2,170,000	-	-	3,190,000
2025	-	840,000	2,270,000	-	-	3,110,000
2026	-	-	2,385,000	-	300,000	2,685,000
2027	-	-	-	-	1,160,000	1,160,000
2028	-	-	-	-	1,215,000	1,215,000
2029	-	-	-	-	1,275,000	1,275,000
2030	-	-	-	-	1,340,000	1,340,000
2031	-	-	-	-	1,405,000	1,405,000
2032	-	-	-	-	1,475,000	1,475,000
2033	-	-	-	-	1,545,000	1,545,000
2034	-	-	-	-	1,620,000	1,620,000
2035	-	-	-	-	1,700,000	1,700,000
2036	-	-	-	-	1,780,000	1,780,000
2037	-	-	-	-	1,860,000	1,860,000
Total remaining payments	\$ 1,100,000	\$ 5,470,000	\$ 16,295,000	\$ 2,440,000	\$ 17,675,000	\$ 42,980,000
Interest rate	2.25% - 3.60%	2.00% - 3.00%	3.00% - 5.00%	2.05%	3.00% - 5.00%	
Original issue	\$ 2,000,000	\$ 7,515,000	\$ 19,595,000	\$ 2,945,000	\$ 17,675,000	

Principal payments for the bond issues are due on May 1 of each year.

Interest payments for the bond issues are due on May 1 and November 1 of each year.