

**OWENDALE-GAGETOWN
AREA SCHOOLS
HURON COUNTY, MICHIGAN**

**AUDIT FINANCIAL STATEMENT 2018
JUNE 30, 2018**

OWENDALE-GAGETOWN AREA SCHOOLS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Owendale-Gagetown Area Schools
Owendale, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 Owendale-Gagetown Area Schools, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 14 to the financial statements, Owendale-Gagetown Area Schools implemented Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Owendale-Gagetown Area School's basic financial statements. The additional supplementary information is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The schedule of bonded indebtedness 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 schedule of bonded indebtedness is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2018, on our consideration of Owendale-Gagetown Area School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Owendale-Gagetown Area School's 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 Owendale-Gagetown Area School's internal control over financial reporting and compliance.

Nietzke & Faupel P.C.

NIETZKE & FAUPEL, P.C.
Pigeon, Michigan

October 5, 2018

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Owendale-Gagetown Area School’s annual financial report presents our discussion and analysis of the District’s financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the district’s financial statements, which immediately follow this section.

For the year ended June 30, 2018 Owendale-Gagetown Area Schools implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These changes are significant at the government-wide level.

FINANCIAL HIGHLIGHTS

The District’s General Fund revenue exceeded expenditures by \$83,276. The General Fund has a fund balance of \$511,625.

The Food Service Fund revenue exceeded expenditures by \$1,146. This increased the fund balance to \$33,618.

The Debt Service Fund revenue exceeded expenditures by \$2,652. This increased the fund balance to \$73,427. The District paid \$75,000 in principal for the fiscal year.

The District borrowed \$200,000 in state aid anticipation notes to help fund current operations.

OVERVIEW OF THE FINANCIAL STATEMENTS

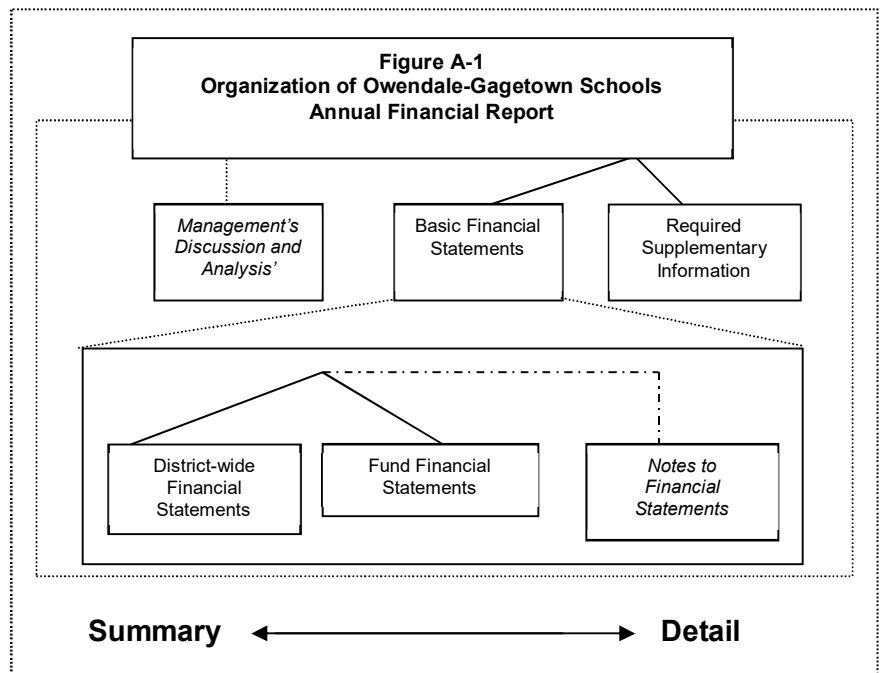
This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are district-wide financial statements that provide both short-term and long-term information about the District’s overall financial status.

The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District’s operations *in more detail* than the district-wide statements.

The *governmental fund* statements tell how *basic* services like instruction and support services were financed in the *short term* as well as what remains for future spending.

Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.



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

Figure A-2 Major Features of District-Wide and Fund Financial Statements			
	<u>District-wide Statements</u>	<u>Fund Financial Statements</u>	
		<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Owendale-Gagetown Area Schools funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District’s assets, deferred outflows, deferred inflows and liabilities. All of the revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District’s *net position* and how it has changed. Net position – the difference between the District’s assets, deferred outflows, deferred inflows and liabilities – is one way to measure the District’s financial health or *position*.

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

To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities include:

Governmental activities – Most of the District's basic services are included here, such as regular and special education, transportation and administration, and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by State law and by bond covenants.

The District establishes other funds to control and manage money for particular purposes (like repaying debt and its capital projects fund) or to show that it is properly using certain revenues (like school lunch).

The District has two kinds of funds:

Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds financial statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds financial statements that explain the relationship (or differences) between them.

Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position at the beginning of the fiscal year, restated due to GASB Statement 75 implementation, was \$(2,616,109) and on June 30, 2018 was \$(2,571,146) which represents an increase of \$44,963 as recorded in the statement of activities.

The following summarizes the combined net position of the Governmental activities:

**Table A-3
Owendale-Gagetown Area Schools
Net Position**

	<u>2018</u>	<u>2017</u>
Current assets	\$ 973,468	\$ 951,632
Noncurrent assets	<u>2,694,757</u>	<u>2,833,884</u>
Total assets	<u>3,668,225</u>	<u>3,785,516</u>
 Deferred outflows of resources	 <u>544,158</u>	 <u>297,069</u>
Current liabilities	457,108	512,596
Noncurrent liabilities	2,769,909	2,853,413
Net other postemployment benefits liability	824,631	-
Net pension liability	<u>2,415,035</u>	<u>2,375,911</u>
Total liabilities	<u>6,466,683</u>	<u>5,741,920</u>
 Deferred inflows of resources	 <u>316,846</u>	 <u>123,482</u>
Net position:		
Net investment in capital assets	(119,874)	(54,434)
Restricted	88,422	82,959
Unrestricted	<u>(2,539,694)</u>	<u>(1,811,342)</u>
Total net position	<u>\$ (2,571,146)</u>	<u>\$ (1,782,817)</u>

The 2017 figures have not been updated for the adoption of GASB 75.

The following summarizes the statement of activities:

**Table A-4
Owendale-Gagetown Area School's Changes in Net Position**

	<u>2018</u>	<u>2017</u>
Revenues		
Program revenues		
Charges for services	\$ 36,115	\$ 39,771
Federal and state categorical grants	611,102	556,151
General Revenues		
Property taxes	474,261	441,380
State sources	895,430	886,980
Other	25,917	40,959
Total revenues	<u>2,042,825</u>	<u>1,965,241</u>
Expenses		
Instruction	1,052,367	1,029,926
Support services	637,290	614,807
Community services	150	128
Food services	95,398	95,131
Interest on long-term debt	114,449	115,864
Depreciation - Unallocated	98,208	98,411
Total expenses	<u>1,997,862</u>	<u>1,954,267</u>
Change in net position	<u>\$ 44,963</u>	<u>\$ 10,974</u>

The 2017 figures have not been updated for the adoption of GASB 75.

District Governmental Activities

The financial performance of the District as a whole is reflected in its governmental funds. As the district completed the year, its governmental funds reported combined fund balances of \$618,670. This is an increase of \$87,074 from the previous year. The increase in fund balance is due primarily to a reduction in operations and maintenance expenses. The District has taken a proactive approach to its declining enrollment and stagnant state funding. During the fiscal year 2018, the District continued with reduced staff and split staff duties, and attracted students through school of choice.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

General Fund and Budget Highlights

During the 2018 fiscal year, the original District budget was amended to reflect changes that affected the District. These changes included adjustments for the final student count, adjustments to the State revenue projections and the final determination of grant awards.

The final amended budget projected revenues to be more than expenditures and outgoing transfers by \$268. Final results showed that revenues came in more than anticipated by \$7,143, and expenditures and transfers were less than anticipated by \$75,865. The net result after other financing sources and (uses) was an increase in the fund balance of \$83,276, increasing the fund balance to \$511,625.

Overall, the difference between the District's amended budget and end of the year figures amounted to a \$83,008 favorable variance.

Food Service Fund

Local revenue decreased \$3,501; Federal reimbursements increased \$18; in addition, state reimbursements decreased \$374. The overall change in revenue was a decrease of \$3,857 from 2017.

On the expenditure side, food cost decreased \$6,130 and salary and benefit costs increased \$5,400. Overall expenditures increased \$3,716 from 2017.

Capital Assets

There were no additions or disposals during the fiscal year end June 30, 2018.

**Table A-5
Owendale-Gagetown Area School’s Capital Assets**

	<u>2018</u>	<u>2017</u>
Land and improvements	\$ 379,751	\$ 379,751
Buildings and improvements	3,337,813	3,337,813
Vehicles and buses	245,852	245,852
Furniture and equipment	539,861	539,861
Totals	<u>\$4,503,277</u>	<u>\$4,503,277</u>

Long-term Debt

The District issued 2013 School Building and Site Bonds on November 25, 2013 in the amount of \$3,150,000. The balance at June 30, 2018 was \$2,840,000.

FACTORS BEARING ON THE DISTRICT’S FUTURE

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

The 2017-2018 base State Aid Foundation allowance of \$7,631 is expected to be increased next year by \$240 per student with a budgeted actual per student amount of \$7,871. The State has established the \$7,871 as the new base foundation for future planning. For the 2017-2018 school year the District received \$788 in At Risk funding for each student who qualified for free and reduced lunch in October of 2016. In 2018-2019 the allocation for At Risk is expected to be the same for each student who qualified for free and reduced lunch in October of 2017. The increase is due to the expansion of Section 31a funding for public school districts. In addition, in 2018-2019 the District is expecting an additional \$25 per pupil in the high school.

The District anticipates a decrease in enrollment of three students for the 2018 fall count compared to the 2017 fall count. In 2017, the fall count of the District was down one student compared to the 2016 fall count. The decrease is the result of decreased population in the county and state, large graduating class, as well as competition from other districts for “Schools of Choice” students. The District will use a three year blended count if the current year decline is more than the three year blended count.

The use of “one time” payments and categorical funding to supplement the foundation allowance for schools in Michigan results in uncertain revenue forecasts. The current system to adjust enrollment data based on student transfers in and out of the District between count days will also contribute to difficulty in predicting funding levels for the current and future fiscal years.

The District's retirement contribution is expected to increase slightly in 2018-2019. The District will pay a maximum of 26.18% for retirement benefits in 2018-2019. This is an increase from 2017-2018 which was 25.56%.

Teachers began to share health care costs in 2013 due to the June 30, 2013 expiration of a three-year bargaining agreement. Implementation of Public Act 152 of 2011 will limit the District's contribution to health care benefits to a maximum of 80% or an amount determined by the state and based on the national consumer price index for medical care. The District utilizes the amount determined by the State in determining the shared health care costs. The amounts are adjusted for inflation on an annual basis.

The District believes that the constant monitoring of the budget and modest on-going cost cutting measures, when combined with the State's retirement reform and health care cost reforms, is sufficient to maintain the current programming for the next few years with the expectation of only modest increases from State revenue sources.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Owendale-Gagetown Area Schools, 7166 Main Street, Owendale, MI 48754.

BASIC FINANCIAL STATEMENTS

OWENDALE-GAGETOWN AREA SCHOOLS

**STATEMENT OF NET POSITION
JUNE 30, 2018**

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS:	
Cash and deposits	\$ 610,076
Receivables:	
Due from other governmental units	346,399
Inventory	833
Prepaid expenses	16,160
Depreciated capital assets	4,503,277
Less: Accumulated depreciation	(1,808,520)
TOTAL ASSETS	<u>3,668,225</u>
 DEFERRED OUTFLOWS OF RESOURCES:	
Related to other postemployment benefits	49,723
Related to pensions	494,435
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>544,158</u>
 LIABILITIES:	
Accounts payable	14,534
Accrued interest payable	21,015
Accrued salaries and wages	81,066
Accrued teacher benefits	16,843
Accrued retirement	37,397
State aid note payable	200,000
Unearned revenue	2,566
Noncurrent liabilities:	
Due within one year	83,687
Due in more than one year	2,769,909
Net other postemployment benefits liability	824,631
Net pension liability	2,415,035
TOTAL LIABILITIES	<u>6,466,683</u>
 DEFERRED INFLOWS OF RESOURCES:	
Related to other postemployment benefits	27,879
Related to pensions	194,403
Related to state aid funding for pension and other postemployment benefits	94,564
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>316,846</u>
 NET POSITION:	
Net investment in capital assets	(119,874)
Restricted for:	
Debt service	54,804
Food service	33,618
Unrestricted	(2,539,694)
TOTAL NET POSITION	<u>\$ (2,571,146)</u>

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

OWENDALE-GAGETOWN AREA SCHOOLS

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		TOTAL
		CHARGES FOR SERVICES	OPERATING GRANTS	GOVERNMENTAL ACTIVITIES
				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
Governmental activities:				
Instruction	\$ 1,052,367	\$ 3,692	\$ 528,185	\$ (520,490)
Support services	637,290	9,978	4,720	(622,592)
Community services	150	-	-	(150)
Food service	95,398	22,445	78,197	5,244
Interest on long-term obligations	114,449	-	-	(114,449)
Depreciation - Unallocated	98,208	-	-	(98,208)
Total governmental activities:	<u>\$ 1,997,862</u>	<u>\$ 36,115</u>	<u>\$ 611,102</u>	<u>(1,350,645)</u>
General revenues:				
Property taxes, levied for general purposes				283,454
Property taxes, levied for debt service				190,807
State sources - unrestricted				895,430
Investment earnings				3,582
Miscellaneous				22,335
Total general revenues				<u>1,395,608</u>
CHANGE IN NET POSITION				<u>44,963</u>
NET POSITION - beginning of year, as restated				(2,616,109)
NET POSITION - end of year				<u>\$ (2,571,146)</u>

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

OWENDALE-GAGETOWN AREA SCHOOLS

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2018

	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>NONMAJOR GOVERNMENTAL FUND - FOOD SERVICE</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS				
Cash and deposits	\$ 494,886	\$ 73,427	\$ 41,763	\$ 610,076
Due from other funds	9,223	-	100	9,323
Due from other governmental units	345,813	-	586	346,399
Inventory	-	-	833	833
Prepaid expenditures	16,160	-	-	16,160
TOTAL ASSETS	<u>\$ 866,082</u>	<u>\$ 73,427</u>	<u>\$ 43,282</u>	<u>\$ 982,791</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES:				
Accounts payable	\$ 14,534	\$ -	\$ -	\$ 14,534
Due to other funds	100	-	9,223	9,323
Accrued interest payable	2,392	-	-	2,392
Accrued salaries and wages	81,066	-	-	81,066
Accrued teacher benefits	16,843	-	-	16,843
Accrued retirement	36,956	-	441	37,397
State aid note payable	200,000	-	-	200,000
Unearned revenue	2,566	-	-	2,566
TOTAL LIABILITIES	<u>354,457</u>	<u>-</u>	<u>9,664</u>	<u>364,121</u>
FUND BALANCE:				
Nonspendable:				
Inventory	-	-	833	833
Prepaid expenditures	16,160	-	-	16,160
Restricted for:				
Debt service	-	73,427	-	73,427
Food service	-	-	32,785	32,785
Assigned for:				
Subsequent year expenditures	103,229	-	-	103,229
Unassigned	392,236	-	-	392,236
TOTAL FUND BALANCE	<u>511,625</u>	<u>73,427</u>	<u>33,618</u>	<u>618,670</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 866,082</u>	<u>\$ 73,427</u>	<u>\$ 43,282</u>	<u>\$ 982,791</u>

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

OWENDALE-GAGETOWN AREA SCHOOLS

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
GOVERNMENTAL ACTIVITIES NET POSITION
JUNE 30, 2018**

TOTAL GOVERNMENTAL FUND BALANCES		\$ 618,670
Amounts reported for governmental activities in the statement of net position are different because:		
Deferred outflows of resources - related to pensions	494,435	
Deferred inflows of resources - related to pensions	(194,403)	
Deferred outflows of resources - related to other postemployment benefits	49,723	
Deferred inflows of resources - related to other postemployment benefits	(27,879)	
Deferred inflows of resources - related to state funding for pension and other postemployment benefits	<u>(94,564)</u>	227,312
Capital assets used in governmental activities are not financial resources, and therefore are not reported as assets in the governmental funds.		
	The cost of capital assets is	4,503,277
	Accumulated depreciation is	<u>(1,808,520)</u>
		2,694,757
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
	Bonds payable	2,840,000
	Compensated absences	38,965
	Accrued interest payable on long-term obligations	<u>18,623</u>
		(2,897,588)
Certain transactions related to the 2013 bonds are reported as expenditures in the fund financial statements, however they are reported as a component of noncurrent liabilities in the government-wide financial statements.		
	The transactions include the following:	
	Discount on bonds	31,494
	Less: Accumulated amortization	<u>(6,125)</u>
		25,369
Net other postemployment benefits liability		(824,631)
Net pension liability		(2,415,035)
NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>\$ (2,571,146)</u></u>

OWENDALE-GAGETOWN AREA SCHOOLS

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018**

	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>NONMAJOR GOVERNMENTAL FUND - FOOD SERVICE</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUE:				
Local sources:				
Taxes	\$ 283,454	\$ 190,807	\$ -	\$ 474,261
Food service	-	-	22,499	22,499
Other local revenue	168,180	230	799	169,209
State sources	1,227,173	-	3,493	1,230,666
Federal sources	71,486	-	74,704	146,190
TOTAL REVENUE	<u>1,750,293</u>	<u>191,037</u>	<u>101,495</u>	<u>2,042,825</u>
EXPENDITURES:				
Instruction	1,059,596	-	-	1,059,596
Supporting services	613,896	-	-	613,896
Community service	150	-	-	150
Food service	-	-	93,724	93,724
Debt service:				
Principal repayment	-	75,000	-	75,000
Interest and fiscal charges	-	113,385	-	113,385
TOTAL EXPENDITURES	<u>1,673,642</u>	<u>188,385</u>	<u>93,724</u>	<u>1,955,751</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>76,651</u>	<u>2,652</u>	<u>7,771</u>	<u>87,074</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers - net	6,625	-	(6,625)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>6,625</u>	<u>-</u>	<u>(6,625)</u>	<u>-</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>83,276</u>	<u>2,652</u>	<u>1,146</u>	<u>87,074</u>
FUND BALANCE - JULY 1	428,349	70,775	32,472	531,596
FUND BALANCE - JUNE 30	<u>\$ 511,625</u>	<u>\$ 73,427</u>	<u>\$ 33,618</u>	<u>\$ 618,670</u>

OWENDALE-GAGETOWN AREA SCHOOLS

**RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 87,074

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and are allocated over their estimated useful lives as annual depreciation expense in the statement of activities.

Depreciation Expense	\$ (139,127)	
Capital Outlays	<u> -</u>	(139,127)

Certain transactions related to the 2013 bonds are reported as expenditures in the fund financial statements, however they are reported as a component of liabilities in the government-wide financial statements.

Amortization of bond discount	(1,313)
-------------------------------	---------

Bond repayments affect long-term liabilities in the statement of net position, but are reported as an expenditure in the fund financial statements.

75,000

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources.

Accrued interest payable - beginning of year	18,872	
Accrued interest payable - end of year	<u>(18,623)</u>	249

Accrued compensated absences are recorded in the statement of activities when incurred, but it is not recorded in the governmental fund financial statements until it is paid.

Accrued compensated absences, beginning of year	38,783	
Accrued compensated absences, end of year	<u>(38,965)</u>	(182)

Some expenses reported in the statement of activities do not require the use of current fiscal resources, and therefore, are not reported as expenditures in the fund financial statements.

Other postemployment benefits items	30,505
Pension related items	13,811

Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension and other postemployment benefit contributions subsequent to the measurement period:

State aid funding for pension, beginning of year	73,510	
State aid funding for pension, end of year	<u>(94,564)</u>	(21,054)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 44,963

OWENDALE-GAGETOWN AREA SCHOOLS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2018

	<u>AGENCY FUNDS</u>
ASSETS	
Cash and deposits	\$ 61,222
TOTAL ASSETS	<u>\$ 61,222</u>
LIABILITIES:	
Due to student groups	\$ 61,222
TOTAL LIABILITIES	<u>\$ 61,222</u>

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

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Owendale-Gagetown Area School District is a consolidated school system located in Huron County, Michigan. The School has approximately 155 students in grades kindergarten through twelve. The School operates under a seven person elected Board of Education.

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

The Reporting Entity:

The Owendale-Gagetown Area Schools ("District") is governed by the Owendale-Gagetown Area Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by U.S. GAAP. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements (GASB).

Government-wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type activities. All of the District's activities are classified as governmental activities and there are no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services of a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State foundation aid, taxes, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net position, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts – net investment in capital assets; restricted; and unrestricted.

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED) **Government-wide and Fund Financial Statements: (Continued)**

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, state sources, intermediate district sources, interest income and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues).

The District does not allocate indirect costs.

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

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

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are reported through governmental funds.

The District reports the following major governmental funds:

General Fund – This is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Debt Service Fund – The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Other Non-major Funds:

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its food service in the special revenue fund.

The *fiduciary funds* account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide financial statements.

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

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting and Basis of Presentation:

Accrual Method

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

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

State Revenue

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

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes (formerly known as Non-Homestead) which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The State revenue is recognized during the foundation period and is funded through payments from October 2017 to August 2018. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds which are not expended by the close of the fiscal year are recorded as unearned revenue.

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

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies:

Cash and Equivalents

The District's cash and equivalents include cash on hand and demand deposits.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Inventory and Prepaid Items

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consisting of expendable supplies held for consumption is recorded as an expenditure when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses/expenditures.

Capital Assets

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

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

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

Buildings and improvements	20 – 50 years
Furniture and other equipment	5 – 20 years

The District's capitalization policy is to capitalize assets with an initial individual cost of \$5,000 or more. Group purchases are evaluated on a case-by-case basis.

Defined Benefit Plan

For purposes of measuring the net pension and other postemployment benefit liability, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pension and other postemployment benefits expense, information about the fiduciary net position of the Michigan Public Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The District has two items that qualify for reporting in this category. They are the pension and other postemployment benefits related items reported in the government-wide statement of net position. A deferred outflow is recognized for pension and other postemployment benefit related items. These amounts are expensed in the plan year in which they apply.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category. The first is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension and other postemployment benefit contributions subsequent to the measurement period. The other items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary.

Compensated Absences

The District's policies generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenditures in the year in which they are incurred.

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

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Fund Balance

The District implemented GASB Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*.” This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.

Restricted fund balance – amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District’s Debt Service and Food Service fund balances are considered restricted.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

Assigned fund balance – amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.

Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is September 14 and February 14, after which time the taxes become delinquent and penalties and interest may be assessed by the collecting entity.

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

<u>Fund</u>	<u>Mills</u>
General Fund:	
Non-Principal Resident Exemption (PRE)	18.000
Commercial Personal Property	6.000
Debt Service Fund:	
PRE, Non-PRE, Commercial Personal Property	1.800

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Use of Estimates:

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund. The capital projects funds are appropriated on a project-length basis. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to July 1, the budget is legally enacted by a School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2018. The District does not consider these amendments to be significant.

During the year ended June 30, 2018, the School District did not incur expenditures in certain budgetary funds that were in excess of the amounts appropriated.

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 3 – CASH AND DEPOSITS:

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U. S. Treasury; certificates of deposit, savings accounts, deposits accounts, or depository receipts of a bank, savings, and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The District had no investments as defined by U.S. GAAP at June 30, 2018.

A reconciliation of cash and deposits as shown on the Statement of Net Position and Statement of Fiduciary Net Position follows:

Statement of Net Position

Government-wide Financial Statement Captions:

Cash - checking	\$ 260,551
Cash - savings	349,525

Statement of Fiduciary Net Position

Cash and deposits	<u>61,222</u>
Total	<u>\$ 671,298</u>

Notes to Financial Statements:

Deposits	\$ 671,013
Cash on hand	<u>285</u>
Total	<u>\$ 671,298</u>

The carrying amount of cash and deposits with financial institutions of the District amounted to \$671,013 at June 30, 2018. The total bank balance as of the same date was \$704,211. As of June 30, 2018 \$454,211 of the District's bank balance was uninsured.

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 9,223	\$ 100
Food Service	<u>100</u>	<u>9,223</u>
Total	<u>\$ 9,323</u>	<u>\$ 9,323</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 - RECEIVABLES:

Receivables at June 30, 2018 from other governmental units consist of the following:

Governmental units	
State sources	\$208,423
Federal sources	64,349
Local sources	<u>73,627</u>
Total	<u>\$346,399</u>

Amounts due from other governmental units include amounts due from federal and state sources for various projects and programs.

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

NOTE 6 – CAPITAL ASSETS:

A summary of changes in the District's capital assets follows:

	<u>2017</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	<u>2018</u>
Capital assets				
Land improvements	\$ 379,751	\$ -	\$ -	\$ 379,751
Buildings and improvements	3,337,813	-	-	3,337,813
Vehicles and buses	245,852	-	-	245,852
Furniture and equipment	<u>539,861</u>	-	-	<u>539,861</u>
Total capital assets	<u>4,503,277</u>	<u>-</u>	<u>-</u>	<u>4,503,277</u>
Accumulated depreciation				
Land improvements	142,707	16,970	-	159,677
Buildings and improvements	1,081,696	76,877	-	1,158,573
Vehicles and buses	174,718	9,736	-	184,454
Furniture and equipment	<u>270,272</u>	<u>35,544</u>	-	<u>305,816</u>
Total accumulated depreciation	1,669,393	139,127	-	1,808,520
Net capital assets	<u>\$2,833,884</u>	<u>\$ (139,127)</u>	<u>\$ -</u>	<u>\$2,694,757</u>

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 – CAPITAL ASSETS: (CONTINUED)

Depreciation expense in the amount of \$139,127 was charged to the programs of the primary government as follows:

Instruction	\$ 11,381
Support services	22,220
Athletics	5,644
Food services	1,674
Unallocated	<u>98,208</u>
Total depreciation	<u>\$139,127</u>

NOTE 7 – NOTE PAYABLE:

At June 30, 2018, the District has \$200,000 in State aid notes. The state aid note bears interest at 1.39% and matures on August 20, 2018.

<u>2017</u>	<u>ADDITIONS</u>	<u>PAYMENTS</u>	<u>2018</u>
\$280,000	\$200,000	\$280,000	\$200,000

NOTE 8 - LONG-TERM DEBT:

The District issued general obligation bonds to provide funds for the acquisition, construction, and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

2013 general obligation bonds due in annual installments of \$50,000 to \$200,000 starting May 1, 2014 through May 1, 2038, with interest at 2% to 4.5% starting November 1, 2014.	\$2,840,000
Discount on bond	(25,369)
Total general obligation bonds	2,814,631
Obligation under contract for compensated absences	38,965
Total general long-term debt	\$2,853,596

Interest expense (all funds) for the year ended June 30, 2018 was approximately \$115,000. General fund interest expense is included in support services.

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 - LONG-TERM DEBT: (CONTINUED)

The following is a summary of the long-term liabilities of the School District for the year ended June 30, 2018:

	<u>2017</u>	<u>ADDITIONS</u>	<u>PAYMENTS</u>	<u>2018</u>	<u>DUE WITHIN ONE YEAR</u>
General obligation bonds	\$ 2,915,000	\$ -	\$ 75,000	\$ 2,840,000	\$ 85,000
Discount on bonds	(26,682)	1,313	-	(25,369)	(1,313)
Compensated absences	38,783	182	-	38,965	-
Totals	<u>\$ 2,927,101</u>	<u>\$ 1,495</u>	<u>\$ 75,000</u>	<u>\$ 2,853,596</u>	<u>\$ 83,687</u>

The annual requirements to amortize the long-term debt outstanding as of June 30, 2018, including interest are as follows:

	<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	2019	\$ 85,000	\$ 111,735	\$ 196,735
	2020	90,000	110,035	200,035
	2021	100,000	107,335	207,335
	2022	105,000	104,335	209,335
	2023	110,000	101,185	211,185
	2024-2028	625,000	445,525	1,070,525
	2029-2033	770,000	311,300	1,081,300
	2034-2038	955,000	131,033	1,086,033
Total general obligation bonds		<u>2,840,000</u>	<u>1,422,483</u>	<u>4,262,483</u>
Discount on bonds		(25,369)	-	(25,369)
Compensated absences		38,965	-	38,965
Total long-term debt		<u>\$ 2,853,596</u>	<u>\$ 1,422,483</u>	<u>\$ 4,276,079</u>

NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS

Plan Description

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

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED)

Plan Description (Continued)

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

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

Benefits Provided - Overall

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

<u>Plan Name</u>	<u>Plan Type</u>	<u>Plan Status</u>
Basic	Defined benefit	Closed
Member Investment Plan (MIP)	Defined benefit	Closed
Pension Plus	Hybrid	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined Contribution	Open

Benefits Provided – Pension

Benefit provisions of the defined pension plan are established by state statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Pension Reform 2010

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

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED)

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

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

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

- Basic plan members: 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

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

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

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

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED) **Pension Reform 2012 (Continued)**

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

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

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

Pension Reform of 2017

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

Benefits Provided – Other postemployment benefit (OPEB)

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

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED)

Retiree Healthcare Reform of 2012

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

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

Regular Retirement (no reduction factor for age)

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

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

Member Contributions

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

Employer Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Postemployment benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED)
Employer Contributions (Continued)

For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of September 30, 2016 valuation will be amortized over a 22-year period for fiscal 2017.

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

	<u>Pension</u>	<u>Other postemployment benefit</u>
October 1, 2016 - September 30, 2017	15.27% - 19.03%	5.69% - 5.91%
October 1, 2017 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%

The District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately \$223,815, with \$142,060 specifically for the Defined Benefit Plan.

The District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total. OPEB benefits were approximately \$58,323, with \$58,323 specifically for the Defined Benefit Plan.

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

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

Pension Liabilities

At June 30, 2018, the District reported a liability of \$2,415,035 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2016 and rolled forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the District's proportion was .009319% and .009523%.

<u>MPSERS (Plan) Non-university employers:</u>	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Total pension liability	\$ 72,407,218,688	\$ 67,917,445,078
Plan fiduciary net position	\$ 46,492,967,573	\$ 42,968,263,308
Net pension liability	\$ 25,914,251,115	\$ 24,949,181,770
Proportionate share	0.009319%	0.009523%
Net pension liability for the District	\$ 2,415,035	\$ 2,375,911

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED)

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

For the year ended June 30, 2018, the District recognized pension expenses of approximately \$222,812.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Differences between expected and actual experience	\$ 20,988	\$ (11,850)
Changes of assumptions	264,586	-
Net difference between projected and actual earnings on pension plan investments	-	(115,455)
Changes in proportion and difference between Employer contributions and proportionate share of contributions	-	(67,098)
Reporting unit's contributions subsequent to the measurement date	208,861	-
	<u>\$ 494,435</u>	<u>\$ (194,403)</u>

\$208,861 reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

Other amounts reported as deferred outflows of resources and (deferred inflows) of resources related to pensions will be recognized in pension expense as follows:

<u>Years ended September 30.</u>	<u>Amount</u>
2018	\$16,486
2019	60,965
2020	24,417
2021	(10,697)

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED)

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

OPEB Liabilities

At June 30, 2018, the District reported a liability of \$824,631 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017, the District's proportion was 0.009312 percent.

<u>MPSERS (Plan) Non-univeristy employers</u>	<u>September 30, 2017</u>
Total Other Postemployment Benefit Liability	\$ 13,920,945,991
Plan Fiduciary Net Position	\$ 5,065,474,948
Net Other Postemployment Benefit Liability	\$ 8,855,471,043
Proportionate share	0.009312%
Net Other Postemployment Benefit Liability for the District	\$ 824,631

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$55,167.

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

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED)

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources
Related to OPEB (Continued)**

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Differences between expected and actual experience	\$ -	\$ (8,780)
Net difference between projected and actual earnings on OPEB plan investments	-	(19,099)
Changes in proportion and difference between employer contributions and proportionate share of contributions	39	-
Reporting Unit's contributions subsequent to the measurement date	49,684	-
	<u>\$ 49,723</u>	<u>\$ (27,879)</u>

\$49,684, reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

Other amounts reported as deferred outflows of resources and (deferred inflows) of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Years ended September 30,</u>	<u>Amount</u>
2018	\$(6,728)
2019	(6,728)
2020	(6,728)
2021	(6,728)
2022	(928)

Actuarial Assumptions

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

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED) **Actuarial Assumptions (Continued)**

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

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

Inflation – 3.0%

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

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

The long-term expected rate of return on pension and other postemployment benefit plan investments – The pension rate was 7.5% (7% Pension Plus Plan), and the other postemployment benefit rate was 7.5%, net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Cost of living pension adjustments – 3.0% annual non-compounded for MIP members.

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

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

Opt Out Assumption – 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.

Survivor Coverage – 80% of male retirees and 67% of female retirees are assumed to have coverage continuing after the retiree's death.

Coverage Election at Retirement – 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED)
Actuarial Assumptions (Continued)

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

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.00%	5.60%
Private Equity Pools	18.00%	8.70%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	(0.10)%
Real Estate and Infrastructure Pools	10.00%	4.20%
Absolute Return Pools	15.50%	5.00%
Short Term Investment Pools	2.00%	(0.90)%
	<u>100.00%</u>	

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

Pension Discount rate – The discount rate used to measure the total pension liability was 7.5% (7.0% for Pension Plus Plan). This discount rate was based on the long-term rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that plan members contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

OPEB Discount rate – The discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that school districts contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net pension liability to changes in the discount rate – The following presents the Reporting Unit’s proportionate share of the net pension liability calculated using the discount rate of 7.5% (7% for Pension Plus Plan), as well as what the Reporting Unit’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED)
Actuarial Assumptions (Continued)

Sensitivity of the net pension liability to changes in the discount rate (Continued)

	Pension		
	1% Decrease (6.5% / 6.0%)	Discount Rate (7.5% / 7.0%)	1% Increase (8.5% / 8.0%)
Reporting Unit's proportionate share of the net pension liability	<u>\$3,145,987</u>	<u>\$2,415,035</u>	<u>\$1,799,619</u>

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

	Other postemployment benefit		
	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Reporting Unit's proportionate share of the net other postemployment benefit liability	<u>\$965,881</u>	<u>\$824,631</u>	<u>\$704,754</u>

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

	Other postemployment benefit		
	1% Decrease (6.5% decreasing to 2.5%)	Healthcare cost trend rates (7.5% decreasing to 3.5%)	1% Increase 8.5% decreasing to 4.5%)
Reporting Unit's proportionate share of the net other postemployment benefit liability	<u>\$698,352</u>	<u>\$824,631</u>	<u>\$968,013</u>

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 9 – RETIREMENT AND POST RETIREMENT BENEFITS: (CONTINUED)

Pension and OPEB Plan Fiduciary Net Position

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

Payable to the Pension and OPEB Plan - At year end the School District is current on all required pension and other postemployment benefit plan payments. Amounts accrued at year end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers, and the contributions due from state revenue Section 147c restricted to fund the MPERS Unfunded Actuarial Accrued Liability (UAAL).

Other Information

On December 20, 2017, the Michigan Supreme Court affirmed that Public Act 75 of 2010 is unconstitutional as it substantially impaired the employee's employment contracts by involuntarily reducing the employee's wages by 3%. As a result, the funds collected pursuant to Public Act 75 before the effective date of Public Act 300 of 2012, must be refunded to the employees in accordance with the Michigan Court of Claims judgment on the aforementioned court case. Effective September 30, 2017, the 3% contribution collected under Public Act 75, which amounted to approximately \$554 million (including interest), was posted as a liability on the plan's CAFR report.

NOTE 10 – CONTINGENT LIABILITY:

The District is a reimbursing employer for purposes of unemployment insurance claims against the District. The District reimburses the State of Michigan for all benefits charged against it in the event of termination of employment and subsequent claims of its employees. The contingent liability for unemployment insurance claims is not recognized in the accompanying financial statements. This expense is recognized as incurred.

NOTE 11 – RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates in two district pools of educational institutions within the State of Michigan for self-insuring property and casualty losses and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2018 or any of the prior three years.

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 12 - SUBSEQUENT EVENTS:

Subsequent to year-end, the District entered into an agreement to borrow \$136,000 from Chemical Bank. The borrowing assists the District with cash flow during the months there are no state aid and property taxes received. The note is dated August 19, 2018 and carries interest at 2.47%. The note matures August 20, 2019.

NOTE 13 – TAX ABATEMENTS:

The District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions granted by townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities. The property taxes abated for all funds by municipality under these programs are as follows:

<u>Municipality</u>	<u>Taxes Abated</u>
Elmwood Township	<u>\$13,590</u>

The taxes abated for the general fund millage is considered by the State of Michigan when determining the District’s section 22 funding of the State School Aid Act.

There are no significant abatements by the District.

NOTE 14 – NEW ACCOUNTING STANDARDS:

For the year ended June 30, 2018, the District implemented the following new pronouncements: GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Summary:

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

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 14 – NEW ACCOUNTING STANDARDS: (CONTINUED)

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

	<u>Governmental Activities</u>
Net position as previously stated July 1, 2017	\$ (1,782,817)
Adoption of GASB Statement 75:	
Net other postemployment benefit liability	(869,803)
Deferred outflows	63,865
Deferred inflows	(27,354)
Net position as restated July 1, 2017	<u>\$ (2,616,109)</u>

NOTE 15 – UPCOMING ACCOUNTING STANDARDS:

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

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the District's 2021 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

REQUIRED SUPPLEMENTARY INFORMATION

OWENDALE-GAGETOWN AREA SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2018**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUE:				
Local sources:				
Taxes	\$ 259,765	\$ 283,330	\$ 283,454	\$ 124
Special education	102,359	103,334	110,314	6,980
Athletics	9,395	9,978	9,978	-
Other local revenue	<u>46,599</u>	<u>47,112</u>	<u>47,888</u>	<u>776</u>
Total local sources	418,118	443,754	451,634	7,880
State sources	1,181,886	1,228,868	1,227,173	(1,695)
Federal sources	<u>63,855</u>	<u>70,528</u>	<u>71,486</u>	<u>958</u>
TOTAL REVENUE	<u>1,663,859</u>	<u>1,743,150</u>	<u>1,750,293</u>	<u>7,143</u>
EXPENDITURES:				
Instruction:				
Basic instruction	875,663	854,143	831,477	22,666
Added needs	<u>198,396</u>	<u>232,875</u>	<u>228,119</u>	<u>4,756</u>
Total instruction	<u>1,074,059</u>	<u>1,087,018</u>	<u>1,059,596</u>	<u>27,422</u>
Supporting services				
Truancy/absenteeism services	1,100	900	643	257
Instructional staff	80,917	87,369	85,505	1,864
General administration	69,691	67,063	65,679	1,384
School administration	139,016	142,315	136,849	5,466
Business	45,435	45,161	43,680	1,481
Operations and maintenance	153,935	149,936	139,146	10,790
Pupil transportation	83,567	85,826	68,375	17,451
Other support services	18,498	26,971	21,146	5,825
Athletics	<u>62,177</u>	<u>56,297</u>	<u>52,873</u>	<u>3,424</u>
Total supporting services	654,336	661,838	613,896	47,942
Community services	77	177	150	27
TOTAL EXPENDITURES	<u>1,728,472</u>	<u>1,749,033</u>	<u>1,673,642</u>	<u>75,391</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(64,613)</u>	<u>(5,883)</u>	<u>76,651</u>	<u>82,534</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers - net	<u>3,335</u>	<u>6,151</u>	<u>6,625</u>	<u>474</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>3,335</u>	<u>6,151</u>	<u>6,625</u>	<u>474</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES				
OTHER USES	<u>(61,278)</u>	<u>268</u>	<u>83,276</u>	<u>83,008</u>
FUND BALANCE - JULY 1	428,349	428,349	428,349	-
FUND BALANCE - JUNE 30	<u>\$ 367,071</u>	<u>\$ 428,617</u>	<u>\$ 511,625</u>	<u>\$ 83,008</u>

OWENDALE-GAGETOWN AREA SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED
AS OF PLAN YEAR ENDED SEPTEMBER 30)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.009319%	0.009523%	0.009557%	0.009839%
Reporting unit's proportionate share of net pension liability	\$ 2,415,035	\$ 2,375,911	\$ 2,334,280	\$ 2,164,170
Reporting unit's covered-employee payroll	\$ 768,879	\$ 806,121	\$ 795,064	\$ 881,007
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	314.10%	294.73%	293.60%	245.65%
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	64.21%	63.27%	63.17%	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years, However, until a full 10 year trend is compiled, reporting units should present information for those years for which information is available.

OWENDALE-GAGETOWN AREA SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE REPORTING UNIT'S PENSION CONTRIBUTIONS

MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN

LAST 10 FISCAL YEARS (DETERMINED

AS OF THE YEAR ENDED JUNE 30)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 221,256	\$ 231,108	\$ 232,160	\$ 224,646
Contributions in relation to statutorily required contributions	221,256	231,108	232,160	224,646
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 798,829	\$ 806,792	\$ 816,320	\$ 828,188
Contributions as a percentage of covered-employee payroll	27.70%	28.65%	28.44%	27.13%

This schedule is presented to illustrate the requirement to show information for 10 years, However, until a full 10 year trend is compiled, reporting units should present information for those years for which information is available.

OWENDALE-GAGETOWN AREA SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE

SHARE OF THE NET OPEB LIABILITY

MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN

LAST 10 FISCAL YEARS (DETERMINED

AS OF PLAN YEAR ENDED SEPTEMBER 30)

Reporting unit's proportion of net OPEB liability (%)	<u>2017</u> 0.009312%
Reporting unit's proportionate share of net OPEB liability	\$ 824,631
Reporting unit's covered-employee payroll	\$ 768,879
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll (%)	107.25%
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)	36.39%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, reporting units should present information for those years for which information is available.

OWENDALE-GAGETOWN AREA SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S OPEB CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED
AS OF THE YEAR ENDED JUNE 30)**

	<u>2018</u>
Statutorily required contributions	\$ 58,323
Contributions in relation to statutorily required contributions	58,323
Contribution deficiency (excess)	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 798,829
Contributions as a percentage of covered-employee payroll	7.30%

This schedule is presented to illustrate the requirement to show information for 10 years, However, until a full 10 year trend is compiled, reporting units should present information for those years for which information is available.

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

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

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

ADDITIONAL SUPPLEMENTARY INFORMATION

OWENDALE-GAGETOWN AREA SCHOOLS

**SCHEDULE OF BOND INDEBTEDNESS
2013 SCHOOL BUILDING AND SITE BONDS
ISSUE DATED NOVEMBER 25, 2013 AT JUNE 30, 2018**

MATURITY			INTEREST	
DATE	PRINCIPAL	RATE	AMOUNT	TOTAL
11/1/18	\$ -		\$ 55,868	\$ 55,868
5/1/19	85,000	2.00%	55,868	140,868
11/1/19	-		55,018	55,018
5/1/20	90,000	3.00%	55,018	145,018
11/1/20	-		53,668	53,668
5/1/21	100,000	3.00%	53,668	153,668
11/1/21	-		52,168	52,168
5/1/22	105,000	3.00%	52,168	157,168
11/1/22	-		50,593	50,593
5/1/23	110,000	3.00%	50,593	160,593
11/1/23	-		48,943	48,943
5/1/24	115,000	3.50%	48,943	163,943
11/1/24	-		46,930	46,930
5/1/25	120,000	3.50%	46,930	166,930
11/1/25	-		44,830	44,830
5/1/26	125,000	4.00%	44,830	169,830
11/1/26	-		42,330	42,330
5/1/27	130,000	4.00%	42,330	172,330
11/1/27	-		39,730	39,730
5/1/28	135,000	4.00%	39,730	174,730
11/1/28	-		37,030	37,030
5/1/29	140,000	4.00%	37,030	177,030
11/1/29	-		34,230	34,230
5/1/30	145,000	4.00%	34,230	179,230
11/1/30	-		31,330	31,330
5/1/31	155,000	4.00%	31,330	186,330
11/1/31	-		28,230	28,230
5/1/32	160,000	4.25%	28,230	188,230
11/1/32	-		24,830	24,830
5/1/33	170,000	4.25%	24,830	194,830
11/1/33	-		21,218	21,218
5/1/34	175,000	4.35%	21,218	196,218
11/1/34	-		17,411	17,411
5/1/35	185,000	4.35%	17,411	202,411
11/1/35	-		13,388	13,388
5/1/36	195,000	4.50%	13,388	208,388
11/1/36	-		9,000	9,000
5/1/37	200,000	4.50%	9,000	209,000
11/1/37	-		4,500	4,500
5/1/38	200,000	4.50%	4,500	204,500
	<u>\$ 2,840,000</u>		<u>\$ 1,422,483</u>	<u>\$ 4,262,483</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Owendale-Gagetown Area Schools
Owendale, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Owendale-Gagetown Area Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Owendale-Gagetown Area School's basic financial statements, and have issued our report thereon dated October 5, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Nietzke & Faupel P.C.

NIETZKE & FAUPEL, P.C.
Pigeon, Michigan

October 5, 2018

October 5, 2018

To the Board of Education
Owendale-Gagetown Area Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Owendale-Gagetown Area Schools for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 13, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Owendale-Gagetown Area Schools are described in Note 1 to the financial statements. During 2018 the District implemented Governmental Accounting No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The application of existing policies was not changed during 2016. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the payout of employee compensated absences upon their retirement is based on an expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension liability and the net other postemployment benefit liability is based on actuarial data. We evaluated the key factors and assumptions used to develop the balance of the net pension liability and the net other postemployment benefit liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Management estimates the useful lives of capital assets. We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements

detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 5, 2018.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the budgetary comparison schedule, schedule of the reporting unit's proportionate share of the net pension liability, schedule of the reporting unit's contributions, schedule of the reporting unit's proportionate share of the net OPEB liability, schedule of the reporting unit's OPEB contributions, and the notes to required supplementary information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on schedule of bonded debt which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Education and management of Owendale-Gagetown Area Schools and is not intended to be, and should not be, used by anyone other than these specified parties.

Nietzke & Faupel P.C.

Nietzke & Faupel, P.C.
Pigeon, Michigan