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New Haven Community Schools

Financial Statements

June 30, 2018



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New Haven Community Schools
Members of the Board of Education and Administration
June 30, 2018

Members of the Board of Education

Gina Walker	President
Sue Simon	Vice President
Tracy Bonkowski	Treasurer
Regina Patton	Secretary
Tanya France	Trustee
Andrew Osterholm	Trustee
Michael Packer	Trustee

Administration

Todd Robinson	Superintendent
Robert Lenhardt	Director for Finance



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Independent Auditors' Report

Management and the Board of Education
New Haven Community Schools
New Haven, 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 New Haven Community Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Adoption of New Accounting Standards

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

Other Matters:

Required Supplementary Information

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

Other Information

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

The other supplementary information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion,

the other supplementary information, as identified in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2018 on our consideration of New Haven Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of New Haven Community Schools' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering New Haven Community Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Flint, Michigan
October 22, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

New Haven Community Schools

Management's Discussion and Analysis (Continued)

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

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand New Haven Community Schools financially as a whole. The government-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds – the General Fund, the Debt Retirement Funds and the 2006 Building and Site Fund – with all other funds presented in one column as nonmajor funds. The remaining statement of fiduciary assets and liabilities presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

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

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

Required Supplemental Information

Budgetary Comparison Schedule

Schedule of the School District's Proportionate Share of the Net Pension Liability

Schedule of the School District's Contributions

Other Supplemental Information

New Haven Community Schools

Management's Discussion and Analysis (Continued)

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

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

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

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

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

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

Governmental Funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending.

New Haven Community Schools

Management's Discussion and Analysis (Continued)

They are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides.

Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in reconciliations.

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

The School District is the trustee, or fiduciary, for one fiduciary fund. The student activity fund represents the activities of the student and parent groups for school and school-related purposes and are considered an Agency Fund. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

New Haven Community Schools

Management's Discussion and Analysis (Continued)

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a comparative summary of the School District's net position as of June 30:

TABLE 1	Governmental Activities	
	June 30	
	2018	2017
	(in millions)	
Assets		
Current and other assets	\$ 4.0	\$ 4.5
Capital assets	67.2	68.5
Total assets	71.2	73.0
Deferred Outflows of Resources		
Total assets and deferred outflows of resources	5.5	3.4
Liabilities		
Current liabilities	3.5	3.7
Net pension/OPEB liability	24.1	17.6
Long-term liabilities	75.0	76.7
Total liabilities	102.6	98.0
Deferred Inflows of Resources		
Total liabilities and deferred inflows of resources	2.3	0.6
Net Position		
Net investment in capital assets	(5.7)	(5.5)
Unrestricted	(22.5)	(16.7)
Total net position	\$ (28.2)	\$ (22.2)

New Haven Community Schools

Management's Discussion and Analysis (Continued)

The above analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was a deficit of \$28.2 million at June 30, 2018. Capital assets, net of related debt totaling a negative 5.7 million, compares the original cost, less depreciation of the School Districts capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt comes due. The remaining amount of net position (a deficit of \$22.5 million) was unrestricted.

As required by the Government Accounting Standards Board (GASB) the School District adopted GASB 68 and 71. These standards required the inclusion of the district's proportionate share of the Michigan Public School Employees Retirement Plan within the District's financial statements, effective July 1, 2014. The effect of the adoption was to decrease the July 1, 2014 beginning net position by \$15.7 million and the inclusion of the obligation, and related deferred inflows and outflows, in the June 30, 2015 financial statements. Additionally, the School District adopted GASB75, which is similar to GASB 69 and 71, but also includes the OPEB portion of the retirement plan. The effect of this adoption was to decrease the July 1, 2017 beginning net position by \$5.9 million. All governments participating in the retirement plan were required to adopt these new standards.

The \$22.5 million deficit in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. A total of 24.1 million of this deficit unrestricted net position is the School Districts proportionate share of the net pension and OPEB liability related to the Michigan Public Schools Employees' Retirement System. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities, which shows the changes in net position for fiscal years 2018 and 2017 (see Table 2).

New Haven Community Schools

Management's Discussion and Analysis (Continued)

TABLE 2

	Governmental Activities	
	Year Ended June 30	
	2018	2017
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 0.4	\$ 0.4
Operating grants	3.2	3.0
General revenue:		
Property taxes	7.2	6.9
State foundation allowance	6.4	6.6
Other	0.3	0.2
Total revenue	17.5	17.1
Functions/Program Expenses		
Instruction	\$ 6.9	\$ 7.2
Support services	5.2	4.9
Food services	0.5	0.5
Community services	0.3	0.2
Interest and other expenses on long-term debt	2.6	3.0
Depreciation (unallocated)	2.0	2.0
Total functions/program expenses	17.5	17.8
Increase (Decrease) in Net Position	0.0	(0.7)
Net Position - Beginning of year	(22.2)	(21.5)
Restatement for GASB75	(6.0)	-
Net Position - End of year	\$ (28.2)	\$ (22.2)

New Haven Community Schools

Management's Discussion and Analysis (Continued)

As reported in the statement of activities, the cost of all our governmental activities this year was \$17.5 million. Certain activities were partially funded from those who benefited from the programs, \$0.4 million, or by other governments and organizations that subsidized certain programs with grants and contributions, \$3.2 million. We paid for the remaining "public benefit" portion of our governmental activities with \$7.2 million in taxes, \$6.4 million in unrestricted state aid, and \$0.3 million of our other revenue (i.e., interest and general entitlements).

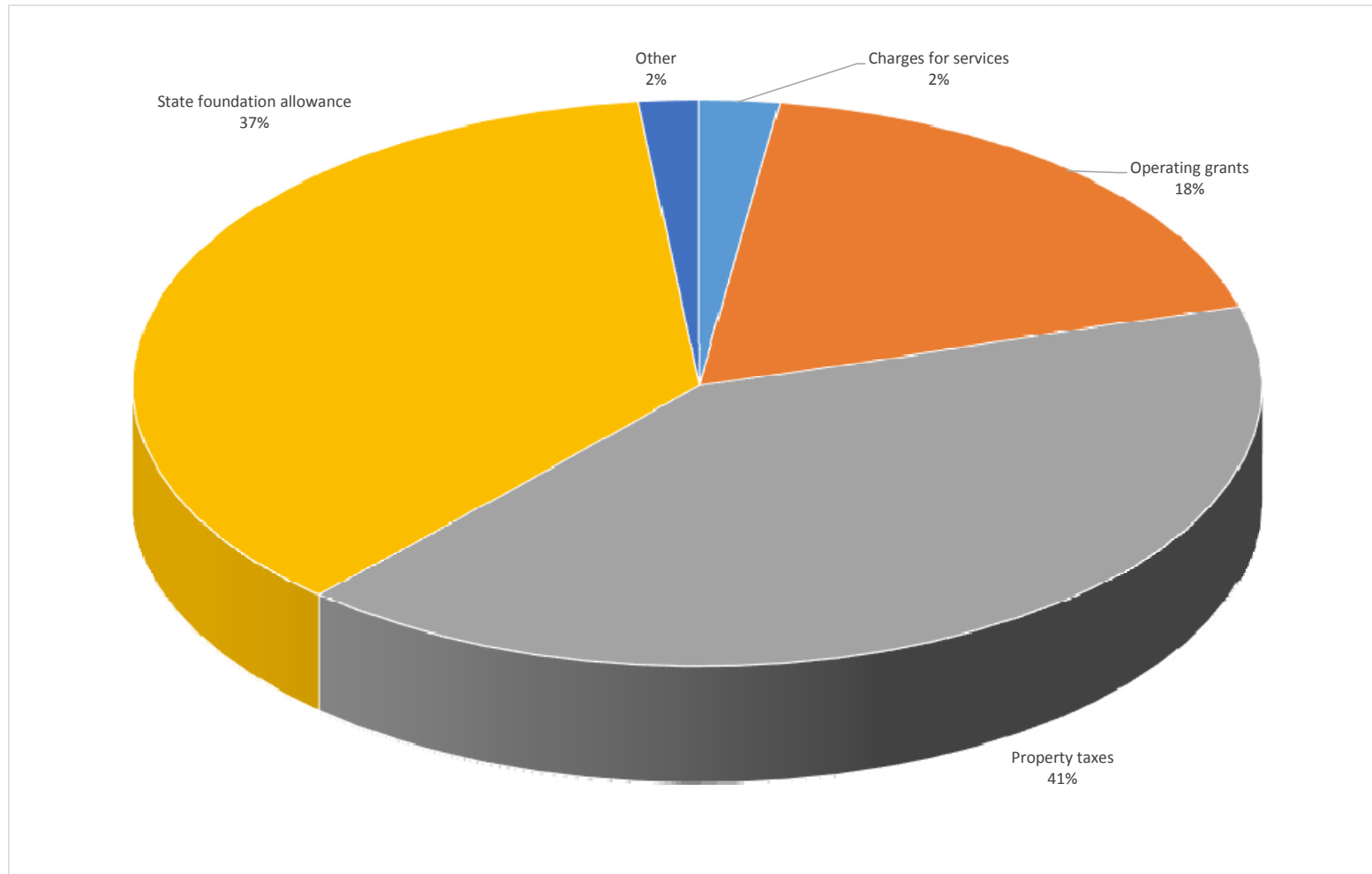
The School District experienced a decrease in net position of about \$80,000. The change in net position included a \$0.2 million decrease in the District's net pension and OPEB liabilities and related deferred inflows and outflows of resources. A reconciliation of the changes in net position appears in the basic financial statements.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

New Haven Community Schools

Management's Discussion and Analysis (Continued)

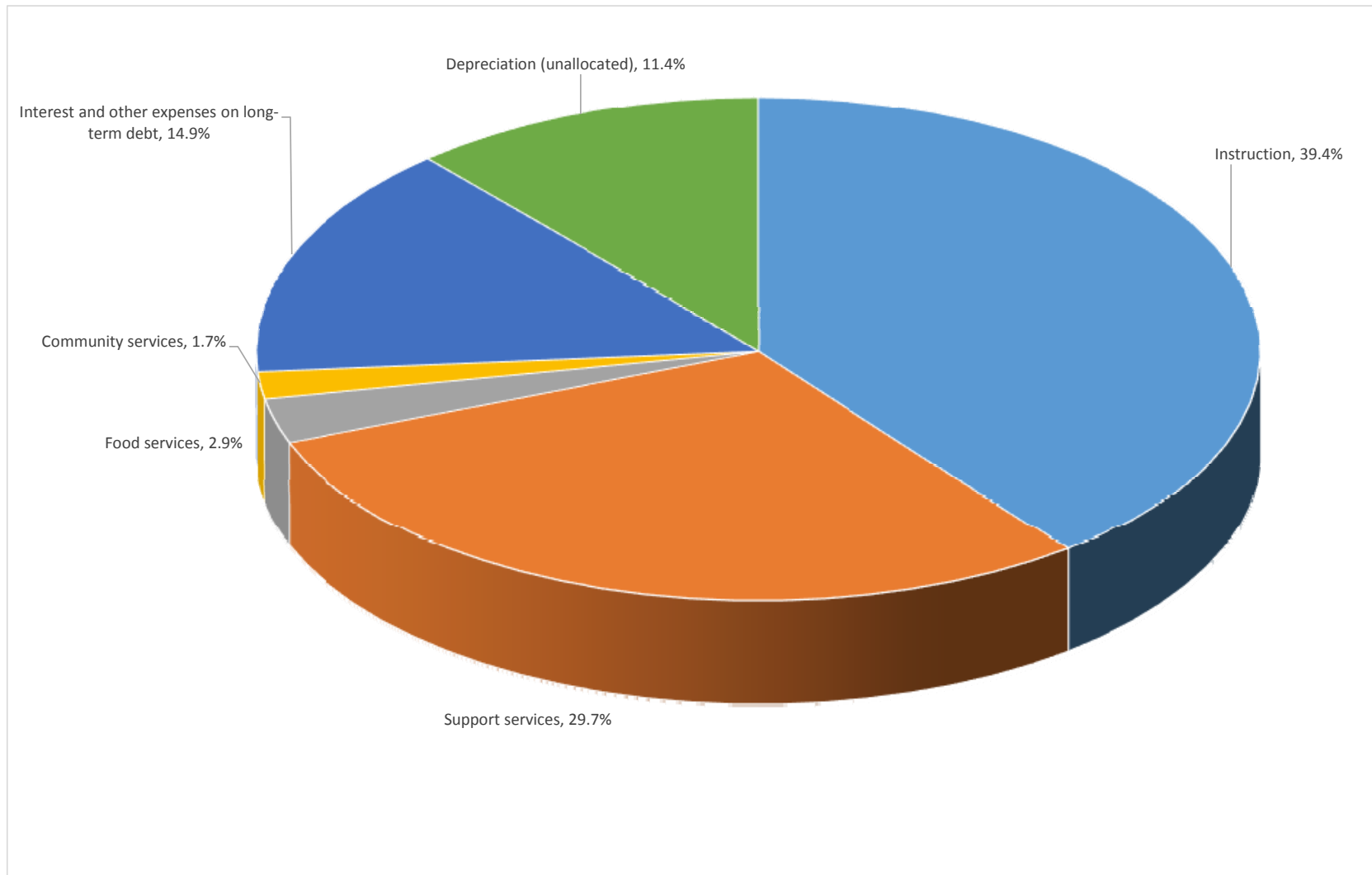
Analysis of Revenue – Governmental Activities Year Ended June 30, 2018



New Haven Community Schools

Management's Discussion and Analysis (Continued)

Analysis of Expenses – Governmental Activities Year Ended June 30, 2018



New Haven Community Schools

Management's Discussion and Analysis (Continued)

The School District's Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$1 million, which is a decrease from last year of \$.4 million. The primary reasons for changes within major funds are as follows:

- In the General Fund, our principal operating fund, the fund balance increased approximately \$6,700, allowing the School District to maintain a positive fund balance of approximately \$29,100.
- Combined, the debt service funds fund increased approximately \$228,000. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt service funds fund balances are reserved since they can only be used to pay debt service obligations.
- The 2006 building and site fund showed a fund balance decrease of approximately \$558,700 as the School District continued construction projects related primarily to the 2006 bond issue. Bonded capital projects funds balances are reserved for capital projects.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided as required supplemental information of these financial statements. Major changes in the General Fund original budget compared to the final budget were as follows:

- Budgeted revenue decreased by approximately \$42,700. Local Revenue increased due to increased tax revenue from valuation increases which was offset by a decrease in the State aid per pupil funding allowance. Budgeted State revenue was decreased due to an unanticipated decline in enrollment, partially offset by State categorical aid, which in turn was matched with increased categorical expenditures.
- Budgeted expenditures increased by approximately \$74,300 in anticipation of increased costs associated with employee wages and benefits.

New Haven Community Schools

Management's Discussion and Analysis (Continued)

- The net variance between final budgeted and actual revenue was a positive \$26,128, which is approximately two-tenths of one percent of total actual revenues.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2018, the School District had \$67.1 million invested in a broad range of net capital assets, including land, buildings, vehicles, furniture, and equipment.

	2018	2017
Land	\$ 5,676,624	\$ 5,676,624
Construction in progress	-	198,463
Land Improvements	1,262,694	1,251,709
Buildings and building improvements	76,989,850	76,542,036
Buses and other vehicles	825,925	1,058,248
Furniture and equipment	4,536,864	4,201,490
Total capital assets	89,291,957	88,928,570
Less accumulated depreciation	22,149,880	20,416,352
Net capital assets	\$ 67,142,077	\$ 68,512,218

This year's addition of approximately \$1,105,000 includes building additions, technology, building renovations, as well as buses. Existing debt originally issued in 2006 funded all additions with the except for buses that are funded from the General Fund. Reductions in capital assets of approximately \$543,000 are the result of capital leases on buses that expired during the year.

Several capital projects are planned for the 2018-2019 fiscal year. We anticipate capital additions to approximate the amount spent in the 2017-2018 fiscal year. We present more detailed information about our capital assets in Note 5 to the financial statements.

New Haven Community Schools

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the School District had approximately \$60.5 million in bonds outstanding versus \$68.0 million in the previous year – a decrease of 11.0 percent. The bonds consisted of the following:

	<u>2018</u>	<u>2017</u>
General obligation bonds	<u>\$ 60,480,000</u>	<u>\$ 67,975,000</u>

The School District's general obligation bond rating from Moody's is Aa1. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. All of the School District's bonded indebtedness is qualified, not subject to the statutorily imposed bonded debt limit.

Other obligations include School Loan Revolving Fund obligations, accrued vacation and sick leave pay, capital lease obligations, and bond premiums and discounts, totaling approximately \$14.5 million. We present more detailed information about our long-term liabilities in Note 10 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2019 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2018–2019 fiscal year is anticipated to be 10 percent and 90 percent of the February 2018 and October 2018 student counts, respectively. Any change in the blended student count calculation could result in revenue loss for the School District. The 2018–2019 budget was adopted in June 2018, based on an estimate of students that will be enrolled in October 2018. Approximately 80 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. The final school aid bill indicates a foundation allowance increase from the previous year per pupil of \$240 to \$7,871 for New Haven Community Schools. The working budget will be adjusted accordingly in the fall based on the October 2018 audited pupil count and the final adopted State aid bill.

New Haven Community Schools

Management's Discussion and Analysis (Continued)

Since the School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to school districts.

The School District currently has four associations as part of its workforce. The Secretaries association/MEA, the Paraprofessionals association/MEA and the Transportation association/MEA contracts run through the end of the 2018-2019 fiscal year. The Teachers association/MEA contract runs through August 2020.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, parents, and investors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the business office at the New Haven Administration building, 30375 Clark Street, New Haven, Michigan 48048-2000.

BASIC FINANCIAL STATEMENTS

New Haven Community Schools
Statement of Net Position
June 30, 2018

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 1,771,241
Taxes receivable	107
Accounts receivable	119,585
Due from other governmental units	1,837,850
Inventory	6,884
Prepaid items	134,793
Restricted assets	182,009
Capital assets not being depreciated	5,676,624
Capital assets - net of accumulated depreciation	<u>61,465,453</u>
 Total assets	 <u>71,194,546</u>
 Deferred Outflows of Resources	
Deferred amount relating to the net pension liability	3,915,852
Deferred amount relating to the net OPEB liability	375,635
Deferred amount on debt refunding	<u>1,120,521</u>
 Total deferred outflows of resources	 <u>5,412,008</u>
 Total assets and deferred outflows of resources	 <u>76,606,554</u>

See Accompanying Notes to the Financial Statements

New Haven Community Schools
Statement of Net Position
June 30, 2018

	<u>Governmental Activities</u>
Liabilities	
Accounts payable	251,316
State aid anticipation note payable	1,500,000
Due to other governmental units	128,179
Payroll deductions and withholdings	40,972
Accrued expenditures	812,727
Accrued salaries payable	723,405
Unearned revenue	36,023
Long-term liabilities	
Due within one year	8,024,610
Due in more than one year	66,944,743
Net pension liability	17,980,290
Net OPEB liability	<u>6,137,011</u>
Total liabilities	<u>102,579,276</u>
Deferred Inflows of Resources	
Deferred amount relating to the net pension liability	2,064,662
Deferred amount relating to the net OPEB liability	<u>207,476</u>
Total deferred inflows of resources	<u>2,272,138</u>
Total liabilities and deferred inflows of resources	<u>104,851,414</u>
Net Position	
Net investment in capital assets	(5,768,363)
Unrestricted (deficit)	<u>(22,476,497)</u>
Total net position	<u>\$ (28,244,860)</u>

See Accompanying Notes to the Financial Statements

New Haven Community Schools
Statement of Activities
For the Year Ended June 30, 2018

	Program Revenues			Net (Expense)
Expenses	Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position	
Functions/Programs				
Governmental activities				
Instruction	\$ 6,925,174	\$ 3,600	\$ 1,732,292	\$ (5,189,282)
Supporting services	5,243,600	76,641	1,093,732	(4,073,227)
Food services	518,841	111,538	382,802	(24,501)
Community services	247,377	220,877	2,845	(23,655)
Interest and fiscal charges on long-term debt	2,659,101	-	-	(2,659,101)
Net loss on sale of capital assets	76,931	-	-	(76,931)
Depreciation expense (unallocated)*	1,931,541	-	-	(1,931,541)
Total governmental activities	\$ 17,602,565	\$ 412,656	\$ 3,211,671	(13,978,238)
General revenues				
				2,685,686
				4,529,482
				6,364,008
				7,209
				310,167
				13,896,552
				(81,686)
				(28,163,174)
				\$(28,244,860)

* - Depreciation expense is unallocated, therefore,
there was no direct depreciation charged to the various programs

See Accompanying Notes to the Financial Statements

New Haven Community Schools
Governmental Funds
Balance Sheet
June 30, 2018

	<u>General Fund</u>	<u>Debt Service Funds</u>	<u>2006 Building and Site</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and investments	\$ 1,020,318	\$ 325,953	\$ 401,049	\$ 23,921	\$ 1,771,241
Taxes receivable	107	-	-	-	107
Accounts receivable	105,237	-	-	14,348	119,585
Due from other funds	12,896	15,743	5,364	12,949	46,952
Due from other governmental units	1,834,191	-	-	3,659	1,837,850
Inventory	-	-	-	6,884	6,884
Prepaid items	134,793	-	-	-	134,793
Restricted assets	-	-	182,009	-	182,009
Total assets	<u>\$ 3,107,542</u>	<u>\$ 341,696</u>	<u>\$ 588,422</u>	<u>\$ 61,761</u>	<u>\$ 4,099,421</u>
Liabilities					
Accounts payable	\$ 239,380	\$ -	\$ -	\$ 11,936	\$ 251,316
State aid anticipation note payable	1,500,000	-	-	-	1,500,000
Due to other funds	34,056	-	-	12,896	46,952
Due to other governmental units	128,179	-	-	-	128,179
Payroll deductions and withholdings	40,972	-	-	-	40,972
Accrued expenditures	384,618	-	-	-	384,618
Accrued salaries payable	723,405	-	-	-	723,405
Unearned revenue	27,787	-	-	8,236	36,023
Total liabilities	<u>3,078,397</u>	<u>-</u>	<u>-</u>	<u>33,068</u>	<u>3,111,465</u>

See Accompanying Notes to the Financial Statements

New Haven Community Schools
Governmental Funds
Balance Sheet
June 30, 2018

	<u>General Fund</u>	<u>Debt Service Funds</u>	<u>2006 Building and Site</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balance					
Non-spendable					
Inventory	-	-	-	6,884	6,884
Prepaid items	134,793	-	-	-	134,793
Restricted for					
Food service	-	-	-	21,809	21,809
Debt service	-	341,696	-	-	341,696
Capital projects	-	-	588,422	-	588,422
Unassigned	<u>(105,648)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(105,648)</u>
 Total fund balance	 <u>29,145</u>	 <u>341,696</u>	 <u>588,422</u>	 <u>28,693</u>	 <u>987,956</u>
 Total liabilities and fund balance	 <u>\$ 3,107,542</u>	 <u>\$ 341,696</u>	 <u>\$ 588,422</u>	 <u>\$ 61,761</u>	 <u>\$ 4,099,421</u>

See Accompanying Notes to the Financial Statements

New Haven Community Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2018

Total fund balances for governmental funds	\$ 987,956
Total net position for governmental activities in the statement of net position is different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
Capital assets not being depreciated	5,676,624
Capital assets - net of accumulated depreciation	61,465,453
Deferred outflows (inflows) of resources	
Deferred outflows of resources resulting from debt refunding	1,120,521
Deferred inflows of resources resulting from the net pension liability	(2,064,662)
Deferred outflows of resources resulting from the net pension liability	3,915,852
Deferred inflows of resources resulting from the net OPEB liability	(207,476)
Deferred outflows of resources resulting from the net OPEB liability	375,635
Certain liabilities are not due and payable in the current period and are not reported in the funds	
Accrued interest	(405,153)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities	
Net pension liability	(17,980,290)
Net OPEB liability	(6,137,011)
Compensated absences	(349,970)
Tax overpayment payable	(22,956)
Bonds payable	(65,562,529)
School bond loan payable, including interest	(8,601,775)
Other loans payable and liabilities	<u>(455,079)</u>
Net position of governmental activities	<u>\$(28,244,860)</u>

See Accompanying Notes to the Financial Statements

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

	General Fund	Debt Service Funds	2006 Building and Site	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Local sources	\$ 3,033,120	\$ 4,529,482	\$ 49,804	\$ 332,419	\$ 7,944,825
State sources	8,346,980	-	-	24,474	8,371,454
Federal sources	834,419	-	-	358,328	1,192,747
Interdistrict sources	375	-	-	-	375
	<u>12,214,894</u>	<u>4,529,482</u>	<u>49,804</u>	<u>715,221</u>	<u>17,509,401</u>
Total revenues					
Expenditures					
Current					
Education					
Instruction	6,836,387	-	-	-	6,836,387
Supporting services	5,176,371	-	-	-	5,176,371
Food services	-	-	-	512,189	512,189
Community services	2,845	-	-	241,361	244,206
Facilities acquisition	-	-	608,504	-	608,504
Capital outlay	345,309	-	-	-	345,309
Debt service					
Principal	143,808	7,380,000	-	-	7,523,808
Interest and other expenditures	18,237	2,722,233	-	-	2,740,470
Bond issuance costs	-	177,144	-	-	177,144
Payment to bond refunding escrow agent	-	8,300,000	-	-	8,300,000
	<u>12,522,957</u>	<u>18,579,377</u>	<u>608,504</u>	<u>753,550</u>	<u>32,464,388</u>
Total expenditures					
Deficiency of revenues over expenditures	<u>(308,063)</u>	<u>(14,049,895)</u>	<u>(558,700)</u>	<u>(38,329)</u>	<u>(14,954,987)</u>

See Accompanying Notes to the Financial Statements

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

	General Fund	Debt Service Funds	2006 Building and Site	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)					
Face value of bonds issued	-	8,185,000	-	-	8,185,000
Premium on bonds issued	-	382,492	-	-	382,492
Proceeds from school bond loan fund	-	5,710,432	-	-	5,710,432
Capital leases	310,783	-	-	-	310,783
Transfers in	24,500	-	-	20,480	44,980
Transfers out	(20,480)	-	-	(24,500)	(44,980)
 Total other financing sources (uses)	 <u>314,803</u>	 <u>14,277,924</u>	 <u>-</u>	 <u>(4,020)</u>	 <u>14,588,707</u>
 Net change in fund balance	 6,740	 228,029	 (558,700)	 (42,349)	 (366,280)
 Fund balance - beginning	 <u>22,405</u>	 <u>113,667</u>	 <u>1,147,122</u>	 <u>71,042</u>	 <u>1,354,236</u>
 Fund balance - ending	 <u>\$ 29,145</u>	 <u>\$ 341,696</u>	 <u>\$ 588,422</u>	 <u>\$ 28,693</u>	 <u>\$ 987,956</u>

See Accompanying Notes to the Financial Statements

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

Net change in fund balances - Total governmental funds	\$ (366,280)
Total change in net position reported for governmental activities in the statement of activities is different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Operating grants	11,478
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(1,931,541)
Capital outlay	906,493
Sale of capital assets (net book value), net of gain on disposal of related debt	(345,093)
Expenses are recorded when incurred in the statement of activities.	
Interest	(64,489)
Compensated absences	49,315
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in the net pension liability	(375,569)
Net change in deferrals of resources related to the net pension liability	236,603
The statement of net position reports the net OPEB liability and deferred outflows of resources and deferred inflows related to the net OPEB liability and OPEB expense. However, the amount recorded on the governmental funds equals actual OPEB contributions.	
Net change in the net OPEB liability	61,498
Net change in deferrals of resources related to the net OPEB liability	(90,366)
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are recorded as liabilities and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Debt issued	(14,588,707)
Repayments of long-term debt	15,823,808
Amortization of deferred amount on debt refunding	(74,184)
Amortization of premiums	397,186
Gain on termination of debt	<u>268,162</u>
Change in net position of governmental activities	\$ (81,686)

See Accompanying Notes to the Financial Statements

New Haven Community Schools
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2018

	<u>Agency Funds</u>
Assets	
Cash and investments	\$ <u>147,535</u>
Liabilities	
Accounts payable	3,627
Due to student activities	<u>143,908</u>
 Total liabilities	 \$ <u>147,535</u>

See Accompanying Notes to the Financial Statements

New Haven Community Schools
Notes to the Financial Statements
June 30, 2018

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

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

District-wide Financial Statements

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

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

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

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). In creating the district-wide financial statements the School District has eliminated interfund transactions.

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

Fund Financial Statements

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

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

New Haven Community Schools
Notes to the Financial Statements
June 30, 2018

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

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

The School District reports the following major governmental funds:

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

Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

2006 Building and Site Fund – The 2006 Building and Site Fund is used to account for and report the restricted bond proceeds from the 2006 bond issue and other financial resources that are restricted to expenditures in connection with purchasing/constructing new school buildings, equipment, remodeling, and repairs.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include the Food Service Fund and School Service/Latchkey/Paid Preschool Funds.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Agency Fund is custodial in nature (assets equal liabilities) and does

not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Net Position or Equity

Cash and Restricted Assets – Cash includes cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Restricted assets include investments, which are stated at fair value, except for certain investment pools which are state at amortized cost.

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

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

New Haven Community Schools
Notes to the Financial Statements
June 30, 2018

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

General Fund

Non-principal residence exemption	18.00000
Commercial personal property	6.00000

Debt Service Funds	7.36000
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School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. 100% of the School District's tax roll lies within Macomb County

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

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed, rather than when purchased.

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

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not

add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	20 years
Buildings and improvements	25-50 years
Equipment and furniture	10-20 years
Buses and other vehicles	8 years

Deferred Outflows of Resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. Deferred amounts on bond refundings are included in the district-wide financials statements. The amounts represent the difference between the reacquisition price and the net carrying amount of the prior debt. For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions and experience differences relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans. The School District also reported deferred outflows of resources for pension and OPEB contributions made after the measurement date. This amount will reduce the net pension and OPEB liabilities in the following year.

Compensated Absences – The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees

New Haven Community Schools
Notes to the Financial Statements
June 30, 2018

who are expected to become eligible in the future to receive such payments upon normal retirement are included.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period.

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

Pension – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (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.

Postemployment Benefits Other Than Pensions – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (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.

Deferred Inflows of Resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions and experience differences relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to MPERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

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

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

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

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

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Education. Residual amounts in

New Haven Community Schools
Notes to the Financial Statements
June 30, 2018

governmental funds other than the General Fund are automatically assigned by their nature.

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

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

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

Use of Estimates

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

Eliminations and Reclassifications

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

Adoption of New Accounting Standards

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards

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

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

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

Upcoming Accounting and Reporting Changes

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

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and

New Haven Community Schools
Notes to the Financial Statements
June 30, 2018

financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

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

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

It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

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

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

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

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

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the

New Haven Community Schools
Notes to the Financial Statements
June 30, 2018

function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

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

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year.

Excess of Expenditures over Appropriations

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variance
General Fund			
Pupil	\$ 960,982	\$ 961,986	\$ 1,004
General administration	487,977	509,099	21,122
Business	195,434	199,805	4,371
Pupil transportation services	628,637	661,273	32,636
Central	149,154	188,364	39,210
Athletic activities	200,948	205,214	4,266
Debt - principal	90,936	143,808	52,872
Debt - interest and fiscal charges	7,917	18,237	10,320
Transfers out	15,721	20,480	4,759

Fund Deficits

The School District has an unassigned fund balance deficit in the General Fund in the amount of \$105,648 as of June 30, 2018. However, the fund balance as a whole was positive and therefore, the School District is not considered to be in a deficit per the Michigan Department of Education. The unassigned deficit was caused by prepaid expenses which were greater than the overall fund balance at year end.

Note 3 - Deposits and Investments

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and investments	\$ 1,771,241	\$ 147,535	\$ 1,918,776
Restricted Assets	<u>182,009</u>	<u>-</u>	<u>182,009</u>
	<u>\$ 1,953,250</u>	<u>\$ 147,535</u>	<u>\$ 2,100,785</u>
The breakdown between deposits and investments for the School District is as follows:			
Deposits (checking, savings accounts, money markets, certificates of deposit)			\$ 1,935,212
Investments in securities, mutual funds, and similar vehicles			<u>165,573</u>
Total			<u>\$ 2,100,785</u>

New Haven Community Schools
Notes to the Financial Statements
June 30, 2018

As of year end, the School District had the following investments:

Investment	Fair Value	Maturities	Rating	Rating Organization
Michigan Liquid Asset Fund	\$ 165,573	< 60 days	AAAm	Standard & Poor's

Interest rate risk – The School District’s minimizes interest rate risk by structuring investments only in money market mutual funds, the Michigan Liquid Asset fund, and cash investments.

Credit risk – State statutes authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers’ acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District has no investment policy that would further limit its investment choices.

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

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District’s deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year-end, \$ 1,806,532 of the School District’s bank balance of \$ 2,250,695 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

Note 4 - Fair Value Measurements

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

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

Amounts invested in MILAF + Portfolio of \$ 165,573. The MILAF + Portfolio is not registered under Rule 2a-7 under the Investment Company Act of 1940. The money market securities are valued using amortized cost, which generally approximates the current fair value of the security. However, the value is not obtained from a quoted price in an active market. (Level 2 inputs)

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Note 5 - Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 5,676,624	\$ -	\$ -	\$ 5,676,624
Construction-in-progress	<u>198,463</u>	<u>-</u>	<u>198,463</u>	<u>-</u>
Total capital assets not being depreciated	<u>5,875,087</u>	<u>-</u>	<u>198,463</u>	<u>5,676,624</u>
Capital assets being depreciated				
Land improvements	1,251,709	10,985	-	1,262,694
Buildings and improvements	76,542,036	447,814	-	76,989,850
Equipment and furniture	4,201,490	335,374	-	4,536,864
Buses and other vehicles	<u>1,058,248</u>	<u>310,783</u>	<u>543,106</u>	<u>825,925</u>
Subtotal	83,053,483	1,104,956	543,106	83,615,333
Less accumulated depreciation for				
Land improvements	605,937	62,695	-	668,632
Building and improvements	17,305,077	1,468,906	-	18,773,983
Equipment and furniture	2,086,836	302,316	-	2,389,152
Buses and other vehicles	<u>418,502</u>	<u>97,624</u>	<u>198,013</u>	<u>318,113</u>
Total accumulated depreciation	<u>20,416,352</u>	<u>1,931,541</u>	<u>198,013</u>	<u>22,149,880</u>
Net capital assets being depreciated	<u>62,637,131</u>	<u>(826,585)</u>	<u>345,093</u>	<u>61,465,453</u>
Net capital assets	<u>\$ 68,512,218</u>	<u>\$ (826,585)</u>	<u>\$ 543,556</u>	<u>\$ 67,142,077</u>

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical. Unallocated depreciation expense, as reported on the statement of activities, does not include direct depreciation expense of

the various programs. Disposals relate to normal disposal of assets which are no longer held by the School District.

Note 6 - Interfund Receivables, Payables, and Transfers

Individual interfund receivable and payable balances at year end were:

Due From Fund	Due to Fund	Amount
General Fund	Debt Service Funds	\$ 15,743
General Fund	2006 Building & Site	5,364
General Fund	Nonmajor governmental funds	12,949
Nonmajor governmental funds	General Fund	<u>12,896</u>
		<u>\$ 46,952</u>

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

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

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Interfund transfers consist of the following:

	Transfers Out		
	General Fund	Nonmajor Governmental Funds	Total
Transfers in			
General Fund	\$ -	\$ 24,500	\$ 24,500
Nonmajor governmental funds	20,480	-	20,480
	<u>\$ 20,480</u>	<u>\$ 24,500</u>	<u>\$ 44,980</u>

Funds were transferred from the Food Service Fund to the General Fund to reimburse for allowable indirect costs. Funds were transferred from the General Fund to the School Service Fund to cover an operating deficit from these activities.

Note 7 - Unearned Revenue

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

	Unearned
Prepaid lunch fees	\$ 6,236
Advanced child care payments	2,000
Grant and categorical aid payments received prior to meeting all eligibility requirements	27,787
Total	\$ 36,023

Note 8 - Leases

Capital Leases

The School District has several lease agreements for financing the purchase of buses. These lease agreements qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of the future minimum lease payments as of the inception dates. The future minimum lease obligations and the net present value are as follows:

Year ending June 30,	
2019	\$ 237,461
2020	174,921
2021	62,589
Total minimum lease payments	474,971
Less amount representing interest	(19,892)
Present value of minimum lease payments	\$ 455,079

The assets acquired through capital leases are as follows:

Assets	
Buses and other vehicles	\$ 674,833
Less accumulated depreciation	(144,628)
Total	\$ 530,205

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Note 9 - State Aid Anticipation Note

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

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

	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Ending Balance</u>
State aid anticipation note	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>

Note 10 - Long-Term Debt

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

Long-term obligation activity is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Government obligation bonds	\$ 67,975,000	\$ 8,185,000	\$ 15,680,000	\$ 60,480,000	\$ 7,800,000
School Loan Revolving Fund	2,753,183	5,740,432	-	8,463,615	-
School Loan Revolving Fund -					
Accrued Interest	16,959	12,201	-	138,160	-
Capital leases	556,266	310,783	411,970	455,079	224,610
Compensated absences	399,285	65,090	14,405	349,970	-
Premium on bonds	5,097,223	382,492	397,186	5,082,529	-
Discount on bonds	(71,572)	-	(71,572)	-	-
Total	<u>\$ 76,726,344</u>	<u>\$ 14,774,998</u>	<u>\$ 16,531,989</u>	<u>\$ 74,969,353</u>	<u>\$ 8,024,610</u>

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

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

\$8,185,000 serial bonds due in annual installments of \$ 100,000 to \$ 1,450,000 starting May 1, 2021 through May 1, 2028; interest at 2.0 percent to 3.0 percent	\$ 12,425,000
\$ 20,675,000 serial bonds due in annual installments of \$ 4,125,000 to \$ 4,150,000 through May 1, 2021; interest at 2.15 percent to 2.65 percent.	39,870,000
\$43,125,000 serial bonds due in annual installments of \$ 2,885,000 to \$ 4,150,000 through May 1, 2030; interest at 4.0 percent to 5.0 percent	<u>8,185,000</u>
Total general obligation bonded debt	<u>\$ 60,480,000</u>

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

Year Ending June 30,	Principal	Interest	Total
2019	\$ 7,800,000	\$ 2,430,918	\$ 10,230,918
2020	7,960,000	2,158,480	10,118,480
2021	8,210,000	1,869,626	10,079,626
2022	4,250,000	1,559,650	5,809,650
2023	4,445,000	1,350,150	5,795,150
2024 - 2028	21,770,000	4,264,200	26,034,200
2029 - 2030	6,045,000	453,750	6,498,750
Total	<u>\$ 60,480,000</u>	<u>\$ 14,086,774</u>	<u>\$ 74,566,774</u>

The general obligation bonds are payable from the Debt Service Funds. As of year end, the fund had a balance of \$ 341,696 to pay this debt. Future debt and interest will be payable from future tax levies.

Interest expenditures for the fiscal year in the General Fund and Debt Service Funds were \$ 18,237 and \$ 2,627,667, respectively.

Advance Refunding

On July 6, 2018, the School District issued general obligation bonds of \$ 8,185,000 (par value) with an interest rate of 2.00% to 3.00% to currently refund bonds with an interest rate of 4.0% to 4.125% and a par value of \$ 8,300,000. The bonds mature on May 1, 2030. The general obligation bonds were issued at a premium and after paying issuance costs of \$ 177,144, the net proceeds were \$ 8,391,348. The net proceeds from the issuance of the general obligation bonds were deposited with an escrow agent to pay off the old bonds. As a result of the refunding, the School District reduced its total debt service requirements by \$ 1,003,519, which resulted in an economic gain of \$ 900,083.

Deferred Amount on Refunding

The 2017 Refunding Bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt. The unamortized balance of \$ 425,373 is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2030.

The total deferred amount on refunding is \$ 1,303,217 as of year end, which includes the unamortized balance of \$ 877,844 remaining from the 2016 Refunding Bonds.

School Loan Revolving Fund

The School Loan Revolving Fund payable represents notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board in accordance with Section 9 of Act No. 92 of the Public Acts of 2005, as amended. Interest was charged at a rate of 3.10 - 3.18 percent during the year ended June 30, 2018. Repayment is required when the revenue from the computed millage rate exceeds the amount sufficient to pay debt service on qualified bonds. The School District is required to levy at least 7.0 mills and repay to the State any excess of the amount levied over the bonded debt service requirements. Due to recent legislated changes to the School Loan Revolving Fund program, participating districts are now required to adjust their annual millage rate to amounts between 7.0 and 13.0 mills, depending on a specified formula. Additionally, the School District has been provided a mandatory repayment date of May 1, 2036, although there are no required principal and interest payments each year. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the School District, no provision for repayment has been included in the above amortization schedule. The balance at June 30, 2018 is \$ 8,601,775, including accrued interest of \$ 138,160.

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Compensated Absences

Accrued compensated absences at year end, consist of \$ 349,970 in accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Note 11 - Risk Management

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

The School District participates in the SET-SEG risk pool (the "pool") for property loss, general liability, fleet coverage, and errors and omissions. The pool, organized under Public Act 138, is composed of School Districts throughout the State of Michigan who pay annual premiums based on the level of coverage, experience, deductible levels, etc. The pool retains the first \$500,000 coverage for each individual claim with reinsurance for amounts in excess of that amount. In years when premiums exceed the claims and other costs, refunds are given based on a number of criteria, including those mentioned above. Should the plan need additional funding, the pool could also assess the members' additional charges.

The School District also participates in the SET-SEG Self-Insured Workers' Compensation Fund for claims relating to workers' compensation. This fund operates as a common risk sharing management program for school districts in Michigan. Members' premiums are used to purchase commercial excess insurance and to pay member claims in excess of deductible amounts been reported as well as those that have not yet been reported.

Note 12 - Pension Plan

Plan Description

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

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected,

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member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Contributions

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

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

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

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

Required contributions to the pension plan from the School District were \$ 1,627,418 for the year ending September 30, 2017.

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

At June 30, 2018, the School District reported a liability of \$ 17,980,290 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was .0694 percent, which was a decrease of .0012 percent from its proportion measured as of September 30, 2016. At September 30, 2017, the total pension expense for the School District was \$ 1,797,349

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 156,261	\$ 88,226
Changes of assumptions	1,969,884	-
Net difference between projected and actual earnings on pension plan investments	-	859,576
Changes in proportion and differences between the School District contributions and proportionate share of contributions	78,907	269,931
School District contributions subsequent to the measurement date	1,710,800	846,929
Total	\$ 3,915,852	\$ 2,064,662

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

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

Deferred (Inflow) and Deferred Outflow of Resources by Plan Year (To Be Recognized in Future Pension Expenses)	
2018	\$ 261,146
2019	569,921
2020	226,611
2021	(70,359)
Total	\$ 987,319

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2016
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of Return:
 - MIP and Basic Plans (Non-Hybrid): 7.5%
 - Pension Plus Plan (Hybrid): 7.0%

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

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.5188.

Recognition period for assets in years is 5.0000.

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

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of

return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.6 %
Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	2.0	(0.9)
	100.0%	

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

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 13.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to

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determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

1% Decrease (Non-Hybrid/Hybrid)*	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)*	1% Increase (Non-Hybrid/Hybrid)*
6.5% / 6.0%	7.5% / 7.0%	8.5% / 8.0%
<u>\$ 23,422,337</u>	<u>\$ 17,980,290</u>	<u>\$ 13,398,432</u>

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

Michigan Public School Employees' Retirement System (MPSERS) Fiduciary Net Position

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

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

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

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

Plan Description

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

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

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

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

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Benefits Provided

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

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

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the

3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

Contributions

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

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2017 fiscal year.

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

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

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Required contributions to the OPEB plan from the School District were \$ 539,545 for the year ended September 30, 2017.

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

At June 30, 2018, the School District reported a liability of \$ 6,137,011 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was .0693 percent, which was unchanged from its proportion measured as of September 30, 2016. At September 30, 2017, the total OPEB expense for the School District was \$ 410,567.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 65,341
Net difference between projected and actual earnings on OPEB plan investments	-	142,135
Changes in proportion and differences between the School District contributions and proportionate share of contributions	342	-
School District contributions subsequent to the measurement date	375,293	-
Total	\$ 375,635	\$ 207,476

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

New Haven Community Schools
Notes to the Financial Statements
June 30, 2018

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

Deferred (Inflow) and Deferred Outflow of Resources by Plan Year (To Be Recognized in Future OPEB Expenses)		
2018	\$	(50,060)
2019		(50,060)
2020		(50,060)
2021		(50,060)
2022		(6,894)
Total	\$	(207,134)

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2016
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of Return: 7.5%

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

Other Assumptions:

- Opt Out Assumptions: 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
- Survivor Coverage: 80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
- Coverage Election at Retirement: 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.4744.

Recognition period for assets in years is 5.0000.

New Haven Community Schools
Notes to the Financial Statements
June 30, 2018

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

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.6 %
Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	2.0	(0.9)
	<u>100.0%</u>	

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

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 11.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

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

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

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

1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
\$ 7,188,213	\$ 6,137,011	\$ 5,244,869

New Haven Community Schools
Notes to the Financial Statements
June 30, 2018

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

The following presents the School District's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the School District's proportionate share of net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 6.5%	Current Healthcare Cost Trend Rate 7.5%	1% Increase 8.5%
\$ 5,197,223	\$ 6,137,011	\$ 7,204,074

OPEB Plan Fiduciary Net Position

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

Payables to the OPEB Plan

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

Note 14 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time, although the School District expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the year June 30, 2018.

Note 15 - Tax Abatements

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

For the fiscal year ended June 30, 2018, the School District's property tax revenues were reduced by approximately \$ 12,000 under these programs.

There are no significant abatements made by the School District.

Note 16 - Subsequent Event

Subsequent to June 30, 2018, the School District has paid the balance of the \$ 1,500,000 and accrued interest on the short-term state aid anticipation note borrowed during the fiscal year and has subsequently borrowed \$ 1,200,000 in short-term state aid anticipation notes through the Michigan Municipal Bond Authority. Proceeds from the borrowing were distributed to the School District in August 2018.

Note 17 - Adoption of New Accounting Standards

As indicated in Note 1, the School District has adopted Governmental Accounting Standards Board Statement 75. This required the School District to record their proportionate share of the net OPEB liability and OPEB expense. Previously, these amounts were not recorded on the School District's statements. The standards require this change to be applied retroactively. The impact of this change is to reduce beginning net position in the statement of activities as of July 1, 2017 by \$ 5,939,984, restating it from (\$22,223,190) to (\$ 28,163,174).

REQUIRED SUPPLEMENTARY INFORMATION

New Haven Community Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources	\$ 2,797,300	\$ 2,985,840	\$ 3,033,120	\$ 47,280
State sources	8,608,000	8,387,686	8,346,980	(40,706)
Federal sources	907,900	896,988	834,419	(62,569)
Interdistrict sources	-	-	375	375
	<u>12,313,200</u>	<u>12,270,514</u>	<u>12,214,894</u>	<u>(55,620)</u>
Expenditures				
Instruction				
Basic programs	5,606,200	5,459,544	5,404,603	(54,941)
Added needs	1,418,900	1,543,605	1,431,784	(111,821)
Supporting services				
Pupil	889,100	960,982	961,986	1,004
Instructional staff	188,000	317,058	249,623	(67,435)
General administration	493,800	487,977	509,099	21,122
School administration	896,300	849,783	839,206	(10,577)
Business	241,700	195,434	199,805	4,371
Operations and maintenance	1,397,300	1,367,684	1,361,801	(5,883)
Pupil transportation services	626,800	628,637	661,273	32,636
Central	65,700	149,154	188,364	39,210
Athletic activities	189,800	200,948	205,214	4,266
Community services	800	4,822	2,845	(1,977)
Capital outlay	-	345,483	345,309	(174)
Debt service				
Principal	121,300	90,936	143,808	52,872
Interest and fiscal charges	400,000	7,917	18,237	10,320
	<u>12,535,700</u>	<u>12,609,964</u>	<u>12,522,957</u>	<u>(87,007)</u>
Total expenditures				
	<u>12,535,700</u>	<u>12,609,964</u>	<u>12,522,957</u>	<u>(87,007)</u>
Deficiency of revenues over expenditures	<u>(222,500)</u>	<u>(339,450)</u>	<u>(308,063)</u>	<u>31,387</u>

New Haven Community Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Capital leases	425,000	310,783	310,783	-
Transfers in	-	25,000	24,500	(500)
Transfers out	-	(15,721)	(20,480)	(4,759)
	<u>425,000</u>	<u>320,062</u>	<u>314,803</u>	<u>(5,259)</u>
Total other financing sources (uses)				
	<u>425,000</u>	<u>320,062</u>	<u>314,803</u>	<u>(5,259)</u>
Net change in fund balance	202,500	(19,388)	6,740	26,128
Fund balance - beginning	<u>22,405</u>	<u>22,405</u>	<u>22,405</u>	<u>-</u>
Fund balance - ending	<u>\$ 224,905</u>	<u>\$ 3,017</u>	<u>\$ 29,145</u>	<u>\$ 26,128</u>

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. School district's proportion of net pension liability (%)	0.0694%	0.0706%	0.0700%	0.0705%						
B. School district's proportionate share of the net pension liability	\$ 17,980,290	\$ 17,604,721	\$ 17,093,694	\$ 15,517,434						
C. School district's covered-employee payroll	\$ 5,732,693	\$ 5,990,902	\$ 5,825,924	\$ 5,836,149						
D. School district's proportionate share of the net pension liability as a percentage of its covered- employee payroll	313.64%	293.86%	293.41%	265.88%						
E. Plan fiduciary net position as a percentage of total pension liability	64.21%	63.27%	62.92%	66.20%						

Note Disclosures:

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

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

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. Statutorily required contributions	\$ 1,960,449	\$ 1,584,513	\$ 1,585,992	\$ 1,259,169						
B. Contributions in relation to statutorily required contributions	<u>1,960,449</u>	<u>1,584,513</u>	<u>1,585,992</u>	<u>1,259,169</u>						
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>						
D. School district's covered-employee payroll	\$ 5,530,823	\$ 5,763,093	\$ 5,743,807	\$ 5,752,258						
E. Contributions as a percentage of covered-employee payroll	35.45%	27.49%	27.61%	21.89%						

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. School district's proportion of net OPEB liability (%)	0.0693%									
B. School district's proportionate share of the net OPEB liability	\$ 6,137,011									
C. School district's covered-employee payroll	\$ 5,732,693									
D. School district's proportionate share of the net OPEB liability as a percentage of its covered- employee payroll	107.05%									
E. Plan fiduciary net position as a percentage of total OPEB liability	36.39%									

Note Disclosures:

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

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. Statutorily required contributions	\$ 452,954									
B. Contributions in relation to statutorily required contributions	<u>452,954</u>									
C. Contribution deficiency (excess)	<u>\$ -</u>									
D. School district's covered-employee payroll	\$ 5,530,823									
E. Contributions as a percentage of covered-employee payroll	8.19%									

OTHER SUPPLEMENTARY INFORMATION

New Haven Community Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2018

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	<u>Food Service</u>	<u>School Service/ LK&PP</u>	
Assets			
Cash and investments	\$ 9,712	\$ 14,209	\$ 23,921
Accounts receivable	13,661	687	14,348
Due from other funds	12,949	-	12,949
Due from other governmental units	3,659	-	3,659
Inventory	<u>6,884</u>	<u>-</u>	<u>6,884</u>
Total assets	<u>\$ 46,865</u>	<u>\$ 14,896</u>	<u>\$ 61,761</u>
Liabilities			
Accounts payable	\$ 11,936	\$ -	\$ 11,936
Due to other funds	-	12,896	12,896
Unearned revenue	<u>6,236</u>	<u>2,000</u>	<u>8,236</u>
Total liabilities	<u>18,172</u>	<u>14,896</u>	<u>33,068</u>
Fund Balance			
Non-spendable			
Inventory	6,884	-	6,884
Restricted for			
Food service	<u>21,809</u>	<u>-</u>	<u>21,809</u>
Total fund balance	<u>28,693</u>	<u>-</u>	<u>28,693</u>
Total liabilities and fund balance	<u>\$ 46,865</u>	<u>\$ 14,896</u>	<u>\$ 61,761</u>

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

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	<u>Food Service</u>	School Service/ LK&PP	
Revenues			
Local sources	\$ 111,538	\$ 220,881	\$ 332,419
State sources	24,474	-	24,474
Federal sources	<u>358,328</u>	<u>-</u>	<u>358,328</u>
Total revenues	<u>494,340</u>	<u>220,881</u>	<u>715,221</u>
Expenditures			
Current			
Education			
Food services	512,189	-	512,189
Community services	<u>-</u>	<u>241,361</u>	<u>241,361</u>
Total expenditures	<u>512,189</u>	<u>241,361</u>	<u>753,550</u>
Deficiency of revenues over expenditures	<u>(17,849)</u>	<u>(20,480)</u>	<u>(38,329)</u>
Other Financing Sources (Uses)			
Transfers in	-	20,480	20,480
Transfers out	<u>(24,500)</u>	<u>-</u>	<u>(24,500)</u>
Total other financing sources (uses)	<u>(24,500)</u>	<u>20,480</u>	<u>(4,020)</u>
Net change in fund balance	<u>(42,349)</u>	<u>-</u>	<u>(42,349)</u>
Fund balance - beginning	<u>71,042</u>	<u>-</u>	<u>71,042</u>
Fund balance - ending	<u>\$ 28,693</u>	<u>\$ -</u>	<u>\$ 28,693</u>

New Haven Community Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2018

Year Ending June 30,	2017 Refunding Principal	2016 Refunding Principal	2015 Refunding Principal	Total
2019	\$ -	\$ 3,675,000	\$ 4,125,000	\$ 7,800,000
2020	-	3,810,000	4,150,000	7,960,000
2021	100,000	3,960,000	4,150,000	8,210,000
2022	100,000	4,150,000	-	4,250,000
2023	920,000	3,525,000	-	4,445,000
2024	1,450,000	2,950,000	-	4,400,000
2025	1,440,000	2,920,000	-	4,360,000
2026	1,425,000	2,885,000	-	4,310,000
2027	1,385,000	2,960,000	-	4,345,000
2028	1,365,000	2,990,000	-	4,355,000
2029	-	3,015,000	-	3,015,000
2030	-	3,030,000	-	3,030,000
Total	<u>\$ 8,185,000</u>	<u>\$ 39,870,000</u>	<u>\$ 12,425,000</u>	<u>\$ 60,480,000</u>
Principal payments due the first day of	May	May	May	
Interest payments due the first day of	May and November	May and November	May and November	
Interest rate	2.00% - 3.00%	4.00% - 5.00%	1.38% - 2.65%	
Original issue	<u>\$ 8,185,000</u>	<u>\$ 43,125,000</u>	<u>\$ 20,675,000</u>	

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By Rebecca Dean at 10:07 am, Oct 26, 2018

New Haven Community Schools

Single Audit Report

June 30, 2018



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditors' Report

Management and the Board of Education
New Haven Community Schools
New Haven, 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 New Haven Community Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise New Haven Community Schools' basic financial statements, and have issued our report thereon dated October 22, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Yeo & Yeo, P.C.

Flint, Michigan
October 22, 2018



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Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditors' Report

Management and the Board of Education
New Haven Community Schools
New Haven, Michigan

Report on Compliance for Each Major Federal Program

We have audited New Haven Community Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of New Haven Community Schools' major federal programs for the year ended June 30, 2018. New Haven Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of New Haven Community Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about New Haven Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of New Haven Community Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, New Haven Community Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of New Haven Community Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered New Haven Community Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of New Haven Community Schools' internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of New Haven Community Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise New Haven Community Schools' basic financial statements. We issued our report thereon dated October 22, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Yeo & Yeo, P.C.

Flint, Michigan
October 22, 2018

**New Haven Community Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018**

	Federal CFDA Number	Award Grant Entitlement Program Amount	Accrued (Unearned) Revenue July 1, 2017	Prior Year Expenditures	Current Year Cash Payments/ In Kind Received	Current Year Expenditures	Accrued (Unearned) Revenue June 30, 2018
U.S. Department of Agriculture							
Passed through Michigan Department of Education							
Child Nutrition Cluster							
Non-Cash Assistance (Commodities):							
National School Lunch Program- Entitlements	10.555	\$ 26,094	\$ -	\$ -	\$ 26,094	\$ 26,094	\$ -
Cash Assistance							
School Breakfast Program	10.553						
171970		102,598	-	92,227	10,371	10,371	-
181970		106,067	-	-	106,067	106,067	-
Total School Breakfast Program		208,665	-	92,227	116,438	116,438	-
National School Lunch Program	10.555						
171960		192,896	-	172,875	20,021	20,021	-
181960		189,539	-	-	189,539	189,539	-
Total National School Lunch Program		382,435	-	172,875	209,560	209,560	-
Summer Food Service Program for Children	10.559						
170900		6,110	355	355	6,110	5,755	-
171900		511	30	30	511	481	-
Total Summer Food Service Program for Children		6,621	385	385	6,621	6,236	-
Total Cash Assistance		597,721	385	265,487	332,619	332,234	-
Total Child Nutrition Cluster		623,815	385	265,487	358,713	358,328	-
Total U.S. Department of Agriculture		623,815	385	265,487	358,713	358,328	-
U.S. Department of Education							
Special Education Cluster (IDEA)							
Passed Through Intermediate School District							
Special Education - Grants to States	84.027						
170450-1617		584,150	156,540	584,150	156,540	-	-
180450-1718		560,002	-	-	300,289	560,002	259,713
Total Special Education - Grants to States		1,144,152	156,540	584,150	456,829	560,002	259,713

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

New Haven Community Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

	Federal CFDA Number	Award Grant Entitlement Program Amount	Accrued (Unearned) Revenue July 1, 2017	Prior Year Expenditures	Current Year Cash Payments/ In Kind Received	Current Year Expenditures	Accrued (Unearned) Revenue June 30, 2018
Passed Through Intermediate School District							
Special Education - Preschool Grants	84.173						
170460-1617		33,887	8,748	33,887	8,748	-	-
180460-1718		29,716	-	-	21,143	29,716	8,573
Total Special Education - Preschool Grants		63,603	8,748	33,887	29,891	29,716	8,573
Total Special Education Cluster		1,207,755	165,288	618,037	486,720	589,718	268,286
Title I							
Passed through Michigan Department of Education							
Title I Grants to Local Educational Agencies	84.010						
171530-1617		222,863	38,336	213,686	42,283	3,947	-
181530-1718		197,743	-	-	121,202	189,901	68,699
Total Title I Grants to Local Educational Agencies		420,606	38,336	213,686	163,485	193,848	68,699
Passed through Intermediate School District							
Career and Technical Education - Basic Grants to States	84.048						
173520-1712-16		20,000	3,264	20,000	3,264	-	-
183520-1812-16		17,000	-	-	15,146	17,000	1,854
Total Career and Technical Education - Basic Grants to States		37,000	3,264	20,000	18,410	17,000	1,854
Passed through Michigan Department of Education							
Title IIA Supporting Effective Instruction State Grant	84.367						
170520-1617		57,134	7,934	32,230	10,645	2,711	-
180520-1718		75,855	-	-	19,430	29,642	10,212
Total Title IIA Supporting Effective Instruction State Grant		132,989	7,934	32,230	30,075	32,353	10,212
Passed through Michigan Department of Education							
Title IV, Part A - Student Support and Academic Enrichment Program	84.367						
180750-1718		10,000	-	-	-	1,500	1,500
Total U.S. Department of Education		1,808,350	214,822	883,953	698,690	834,419	350,551
Total Federal Programs		<u>\$ 2,432,165</u>	<u>\$ 215,207</u>	<u>\$ 1,149,440</u>	<u>\$ 1,057,403</u>	<u>\$ 1,192,747</u>	<u>\$ 350,551</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

New Haven Community Schools
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2018

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal award activity of New Haven Community Schools under programs of the federal government for the year ended June 30, 2018. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of New Haven Community Schools, it is not intended to and does not present the financial position or changes in financial positions of New Haven Community Schools.

Note 2 - Summary of Significant Accounting Policies

Expenditures

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, where certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

New Haven Community Schools has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Reconciliation to the Financial Statements

Federal revenues reported in the financial statements agree to the expenditures reported on the SEFA.

Note 4 – Funds Transferred to Subrecipients

No amounts were provided to subrecipients during the fiscal year.

Note 5 - Michigan Department of Education Disclosures

The amounts reported on the Recipient Entitlement Balance Report (PAL Report) agree with the SEFA for USDA donated food commodities.

The federal amounts reported on the CMS Grant Auditor Report (GAR) are in agreement with the SEFA.

**New Haven Community Schools
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements were prepared in accordance with Generally Accepted Accounting Principles:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes _____ X _____ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes _____ X _____ None reported
- Noncompliance material to financial statements noted? _____ Yes _____ X _____ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes _____ X _____ No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes _____ X _____ None reported

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with §200.516(a)? _____ Yes _____ X _____ No

**New Haven Community Schools
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Identification of major programs:

CFDA Numbers
84.027/84.173

Name of Federal Program
Special Education Cluster

Dollar threshold used to distinguish
between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee:

 X Yes

 No

Section II - Financial Statement Findings

No matters were noted.

Section III - Federal Award Findings and Questioned Costs

No matters were noted.

New Haven Community Schools
Summary Schedule of Prior Audit Findings
June 30, 2018

Finding 2017-001

Finding Type: Material noncompliance with laws and regulations

Criteria: The State of Michigan Uniform Budgeting and Accounting Act prohibits school districts from adopting an overall deficit budget (negative fund balance). This has been a finding since at least 2009.

Status: Fully corrected. The School District did not adopt a deficit fund condition for the General Fund during the year and was also able to achieve a positive change in fund balance. For the second year in a row, the District has a positive fund balance at year end.

October 22, 2018

Management and the Board of Education
New Haven Community Schools
New Haven, Michigan

We have completed our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of New Haven Community Schools as of and for the year ended June 30, 2018, and have issued our report dated October 22, 2018. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 29, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

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 New Haven Community Schools' financial statements were:

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

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

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

Accounting Standards and Regulatory Updates

Accounting Standards

The Governmental Accounting Standards Board has released the following Statements:

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

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

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

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

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

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

Regulatory and Other Updates

Cybersecurity Posture

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

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

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

Uniform Guidance – Implementation of Federal Grant Procurement Standards

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

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

Fiscal Year (FY) 2019 School Aid

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

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

- A new Section 54d appropriates \$5 million in grant funds for intermediate districts to provide pilot programs for children from birth to 3 years of age with developmental disability and/or delay.
- Section 147c has a MPERS rate cap funding set at \$1.03 billion, which is an increase of \$72 million. The rate cap is estimated at \$690 per pupil.
- Section 147e includes \$37.6 million allocated as a direct reimbursement for additional retirement costs for specific qualified participants due to PA 92 of 2017.

Budget Assumptions & Early Warning

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

Uniform Budgeting and Accounting Act (UBAA)

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

Current Operating Expenditures (COE) for UAAL

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial, and communicate them to the appropriate level of management. The adjustments identified during the audit have been communicated to management and management has posted all adjustments. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

There were no uncorrected misstatements that were more than trivial.

Disagreements with Management

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

Management Representations

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

Management's Consultations with Other Accountants

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

Other Audit Findings or Issues

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

Emphasis of Matters in Independent Auditors' Report

Our report will include the following emphasis of matter paragraph:

Adoption of New Accounting Standards

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

Other Reports

Other information that is required to be reported to you is included in the: Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditors' Report on Compliance For Each Major Federal Program; Independent Auditors' Report on Internal Control Over Compliance; Independent Auditors' Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance; and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Report on Required Supplementary Information

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

Report on Other Supplementary Information

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

We discussed these matters with various personnel in the School District during the audit and have already met with management on during fieldwork. We will meet with you on October 22, 2018 to discuss these matters.

Restriction on Use

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

Yeo & Yeo, P.C.

Flint, Michigan