

BYRON AREA SCHOOLS

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional
supplementary information)

JUNE 30, 2018

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September 27, 2018

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Byron Area Schools

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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Emphasis of Matter – Change in Accounting Principle

As discussed in Note 13 to the financial statements, Byron Area Schools implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Byron Area Schools basic financial statements. The combining and individual non-major fund financial statements and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2018, on our consideration of the Byron Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Byron Area Schools' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Byron Area Schools' internal control over financial reporting and compliance.

Lewis & Knopf, P.C.

LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

BYRON AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS

As administration of Byron Area Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018.

Financial Highlights

- * The liabilities and deferred inflows of the District exceeded its assets and deferred outflows at the close of the most recent fiscal year by \$14,221,424 (net position).
- * The District's total net position increased by \$230,825. The increase was primarily due to the additional building improvements that occurred in the past year that increased the districts capital assets.
- * The general fund had an increase in fund balance of \$18,877. Total fund balance for the general fund was \$792,963, or 9%, of total general fund expenditures.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District financially as a whole. The District-Wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The financial statements then proceed to provide an increasingly detailed look at specific financial activities included in the fund financial statements. 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 provide information about the School District's most significant fund - the General Fund. All other funds are presented in one column as non-major funds.

Reporting the District as a Whole

The Statement of Net Position and Statement of Activities - One of the most important questions asked about the District's finances is, "Is the District better off or worse off 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 about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by private-sector corporations. However, the School District's goal is to provide services to our students, not to generate profits as private-sector corporations do. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The statement of net position and the statement of activities present information about the following:

Governmental Activities - All of the District's basic services are considered to be governmental activities, including instruction, support services, community services, food services, and transfers to other local districts. Property taxes, intergovernmental revenues (unrestricted and restricted State Aid), and charges for services finance most of these activities. These two statements report the District's net position and changes therein. The change in net position provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, political conditions at the State Capitol, student enrollment growth, birth rates, and facility conditions in arriving at their conclusion regarding the overall health of the District.

The government-wide financial statements can be found on pages 1 - 2 of this report.

BYRON AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS

Reporting the District's Most Significant Funds

Fund Financial Statements - The fund financial statements provide detailed information about the most significant funds - not the District as a whole. The fund financial statements begin on page 3 and provide detailed information about the most significant funds. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." The District's two types of funds: governmental funds and fiduciary funds use different accounting approaches as further discussed in the notes to the financial statements. In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 3 and 4 of this report.

Fiduciary Funds - The District is the fiduciary for various student group activities. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets.

The basic fiduciary fund financial statement can be found on page 5 of this report.

Additional Information - The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 6 - 28 of this report.

BYRON AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF NET POSITION:

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

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

	2018	2017
<u>NET POSITION SUMMARY</u>		
<u>ASSETS</u>		
Other Assets	\$4,258,385	\$4,681,140
Capital Assets	2,584,128	1,794,716
<u>TOTAL ASSETS</u>	\$6,842,513	\$6,475,856
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	3,239,738	1,765,200
<u>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	\$10,082,251	\$8,241,056
<u>LIABILITIES</u>		
Other Liabilities	21,961,974	16,977,690
Long-Term Liabilities	150,760	166,476
Total Liabilities	\$22,112,734	\$17,144,166
<u>DEFERRED INFLOWS OF RESOURCES</u>	2,190,941	739,685
<u>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u>	\$24,303,675	\$17,883,851
<u>NET POSITION</u>		
Net Investment in Capital Assets	2,539,979	1,723,321
Restricted	222,876	592,400
Unrestricted	(16,984,279)	(11,958,516)
<u>TOTAL NET POSITION</u>	(\$14,221,424)	(\$9,642,795)

The above analysis focuses on the net position. The change in net position of the School District's governmental activities is discussed below. The net position differs from fund balances and a reconciliation appears on page 3.

The District's net position reflects its investment in capital assets, and capital projects (i.e. land, buildings, vehicles, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position, \$222,876, represents resources that are subject to external restrictions on how they may be used. In the case of the School District, these amounts are restricted for capital projects.

BYRON AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF NET POSITION: (Continued)

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

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2018 and 2017, the District wide results of operations were:

	<u>2018</u>	<u>2017</u>
<u>REVENUES</u>		
<u>Program Revenues</u>		
Charges for Services	\$344,687	\$350,382
Operating Grants	<u>1,552,862</u>	<u>1,370,190</u>
Total Program Revenues	\$1,897,549	\$1,720,572
<u>General Revenues:</u>		
Property Taxes	1,027,369	996,127
State Sources - Unrestricted	6,290,300	6,545,023
Interdistrict Sources	360,685	240,718
Other General Revenues	<u>80,678</u>	<u>106,647</u>
Total General Revenues	<u>\$7,759,032</u>	<u>\$7,888,515</u>
Total Revenues	\$9,656,581	\$9,609,087
 <u>EXPENSES</u>		
Instruction & Instructional Support	6,112,625	5,485,532
Support Services	2,752,924	2,649,941
Community Services	50,357	35,756
Food Service	347,236	354,655
Depreciation	<u>162,614</u>	<u>136,639</u>
Total Expenses	<u>\$9,425,756</u>	<u>\$8,662,523</u>
 <u>CHANGE IN NET POSITION</u>	\$230,825	\$946,564
 <u>BEGINNING NET POSITION - AS RESTATED</u>	<u>(14,452,249)</u>	<u>(10,589,359)</u>
 <u>ENDING NET POSITION</u>	<u><u>(\$14,221,424)</u></u>	<u><u>(\$9,642,795)</u></u>

The District's net position increased by \$230,825 during the current fiscal year. The increase in net position differs from the change in fund balances and a reconciliation appears on page 4.

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 the School District's 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.

BYRON AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS

General Fund Budgeting and Operating Highlights

The School District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund.

During the fiscal year ended June 30, 2018, the School District amended the budget of the General Fund two times. State law requires that the budget be amended to ensure that expenditures do not exceed appropriation. A schedule showing the School District's general fund original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

The general fund actual revenue and other financing sources was \$8,719,404. That amount is less than the final budget estimate of \$9,066,799. The variance was \$347,395, or 4%. The variance was primarily due to the PA75 3% payback which had been included in the final budget, but should have been only counted as a liability.

The actual expenditures and other financing uses of the general fund were \$8,700,527, which is less the final budget estimate of \$9,049,202. The variance was \$348,675, or 4%. The variance was primarily due to the PA75 3% payback which had been included in the final budget, but should have been only counted as a liability.

The general fund had total revenues of \$8,719,404 and total expenditures of \$8,700,527 with a net increase in fund balance of \$18,877 and an ending fund balance of \$792,963.

Capital Asset and Debt Administration

A. Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2018 amounted to \$2,271,804 (net of accumulated depreciation). This investment in capital assets included land, land improvements, machinery and equipment, and licensed vehicles. Capital assets at fiscal year-end included the following:

	Capital Assets (Net of Depreciation)	
	2018	2017
Land	\$220,429	\$220,429
Land Improvements	50,846	67,946
Buildings and Improvements	1,795,053	1,299,012
Equipment and Furniture	55,141	40,147
Vehicles	150,335	167,182
<u>Total capital assets, net</u>	<u>\$2,271,804</u>	<u>\$1,794,716</u>

Additional information on the District's capital assets can be found in Note 5.

BYRON AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration (Continued)

B. Long-Term Debt

At the end of the current fiscal year, the District had total long-term debt outstanding of \$150,760. Long-term debt at fiscal year-end included the following:

	<u>Long-Term Debt</u>	
	<u>2018</u>	<u>2017</u>
Installment Contracts	\$44,149	\$71,395
Sick Days Payable	106,611	95,081
Total Long-Term Debt	<u>\$150,760</u>	<u>\$166,476</u>

Additional information on the District's long-term debt can be found in Note 7.

Economic Factors and Next Year's Budget

The following factors will affect the District in the future and were considered in preparing the District's budget for the 2018-19 fiscal year:

* Foundation Allowance

The Board of Education and Administration agreed to an estimate of a foundation allowance of \$ 7,871 per pupil for the 2018-19 fiscal year, a \$ 240 per pupil increase from 2017-18, based on information received from various educational organizations such as Michigan School Business Officials, Michigan Association of School Administrators, and the Michigan Association of School Boards as well as discussions with local state representatives. The political debate regarding the funding of public education, the current economic climate in the State of Michigan and the gubernatorial election will all affect this estimate before the final foundation allowance is known.

* Retirement Rate

The continuing cost of health insurance to current and potential retirees continues to drive the rate increase the Michigan School Employees Retirement System recommends to the legislature for approval. In 2018-19, the rate is anticipated to increase to 26.18%. However, the District will be required to pay an additional 12.21%, for all wages earned October 1, 2018 and later, for the Unfunded Actuarial Accrued Liability (UAAL).

* The Byron Area Schools' 2018/2019 adopted budget is as follows:

<u>REVENUE</u>	\$8,287,550
<u>EXPENDITURES</u>	<u>8,287,550</u>
<u>NET (UNDER) BUDGET</u>	<u>\$0</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

BYRON AREA SCHOOLS - BYRON, MICHIGAN
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
<u>ASSETS</u>	
Cash and Cash Equivalents	\$1,394,256
Investments	1,326,311
Accounts Receivable	5,203
Due from Other Governmental Units	1,522,120
Inventory	10,495
Capital Assets, Not Depreciable - Construction in Progress	312,324
Capital Assets, Not Depreciable - Land	220,429
Capital Assets, Net of Accumulated Depreciation	2,051,375
Total Assets	\$6,842,513
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Related to Pensions	2,943,321
Related to Postemployment Benefits	296,417
Total Deferred Outflows of Resources	\$3,239,738
<u>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	\$10,082,251
<u>LIABILITIES</u>	
Accounts Payable	72,345
State Aid Note Payable	2,353,000
Due to Other Governmental Units	100,318
Salaries Payable	612,853
Unearned Revenue	53,826
Non-Current Liabilities - Due in One Year	27,738
Non-Current Liabilities - Due in More than One Year	123,022
Net Pension Liability	13,977,963
Net Other Postemployment Benefits Liability	4,791,669
Total Liabilities	\$22,112,734
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Related to State Aid Funding for Pension and Other Postemployment Benefits	661,517
Related to Pensions	1,367,431
Related to Other Postemployment Benefits	161,993
Total Deferred Inflows of Resources	\$2,190,941
<u>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u>	\$24,303,675
<u>NET POSITION</u>	
Net Investment in Capital Assets	2,539,979
Restricted	222,876
Unrestricted	(16,984,279)
<u>TOTAL NET POSITION</u>	(\$14,221,424)

See notes to the financial statements.

BYRON AREA SCHOOLS - BYRON, MICHIGAN
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Charges For Services</u>	<u>Program Revenues Program Specific Operating Grants and Contributions</u>	<u>Governmental Activities Net (Expense) Revenue and Change in Net Position</u>
Governmental Activities:				
Instruction	\$6,112,625	\$0	\$516,431	(\$5,596,194)
Support Services	2,752,924	132,265	818,220	(1,802,439)
Community Services	50,357	75,624	0	25,267
Food Service	347,236	136,798	218,211	7,773
Depreciation - Unallocated	162,614	0	0	(162,614)
<u>Total Governmental Activities</u>	<u>\$9,425,756</u>	<u>\$344,687</u>	<u>\$1,552,862</u>	<u>(\$7,528,207)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				449,539
Property Taxes, Levied for Capital Projects				577,830
State Sources - Unrestricted				6,290,300
Interdistrict Sources				360,685
Investment Earnings				15,951
Other				64,727
Total General Revenues				<u>\$7,759,032</u>
Change in Net Position				<u>\$230,825</u>
Net Position - Beginning of Year - As Restated				<u>(14,452,249)</u>
<u>Net Position - End of Year</u>				<u>(\$14,221,424)</u>

See notes to the financial statements.

BYRON AREA SCHOOLS - BYRON, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$1,139,515	\$254,741	\$1,394,256
Investments	1,326,311	0	1,326,311
Receivables:			
Accounts Receivable	1,678	3,525	5,203
Due from Other Governmental Units	1,516,671	5,449	1,522,120
Inventory	0	10,495	10,495
<u>TOTAL ASSETS</u>	<u>\$3,984,175</u>	<u>\$274,210</u>	<u>\$4,258,385</u>
<u>LIABILITIES</u>			
Accounts Payable	\$72,345	\$0	\$72,345
State Aid Note Payable	2,353,000	0	2,353,000
Due to Other Governmental Units	100,318	0	100,318
Salaries Payable	611,723	1,130	612,853
Unearned Revenue	53,826	0	53,826
Total Liabilities	<u>\$3,191,212</u>	<u>\$1,130</u>	<u>\$3,192,342</u>
<u>FUND BALANCES</u>			
Non-Spendable			
Inventory	0	10,495	10,495
Restricted			
Food Service	0	39,709	39,709
Capital Projects	0	222,876	222,876
Unassigned	792,963	0	792,963
Total Fund Balances	<u>\$792,963</u>	<u>\$273,080</u>	<u>\$1,066,043</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$3,984,175</u>	<u>\$274,210</u>	<u>\$4,258,385</u>

See notes to the financial statements.

BYRON AREA SCHOOLS - BYRON, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2018

Total Governmental Fund Balances:		\$1,066,043
Amounts reported for governmental activities in the statement of net position are different because:		
Deferred Outflows of Resources - Related to Pensions		2,943,321
Deferred Outflows of Resources - Related to Postemployment Benefits		296,417
Deferred Inflows Related to State Aid Funding for Pension and Other Postemployment Benefits		(661,517)
Deferred Inflows of Resources - Related to Pensions		(1,367,431)
Deferred Inflows of Resources - Related to Other Postemployment Benefits		(161,993)
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds:		
Capital Assets	\$7,879,913	
Less: Accumulated Depreciation	<u>(5,608,109)</u>	
Capital Assets, Net of Accumulated Depreciation		2,271,804
Construction in Progress		312,324
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bus Installment Note	44,149	
Sick Days Payable	<u>106,611</u>	
Total		(150,760)
Net Pension Liability		(13,977,963)
Net Other Postemployment Benefits Liability		<u>(4,791,669)</u>
<u>TOTAL NET POSITION -</u>		
<u>GOVERNMENTAL ACTIVITIES</u>		<u>(\$14,221,424)</u>

BYRON AREA SCHOOLS - BYRON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<u>REVENUES</u>			
Local Sources	\$723,768	\$728,966	\$1,452,734
State Sources	7,442,588	10,840	7,453,428
Federal Sources	182,363	207,371	389,734
Interdistrict Sources	360,685	0	360,685
Total Revenues	<u>\$8,709,404</u>	<u>\$947,177</u>	<u>\$9,656,581</u>
<u>EXPENDITURES</u>			
Instruction	5,881,097	0	5,881,097
Student Services	190,409	0	190,409
Instructional Support	113,585	0	113,585
General Administration	293,849	0	293,849
School Administration	475,584	0	475,584
Business Administration	172,271	0	172,271
Operation & Maintenance of Plant	792,020	0	792,020
Transportation	415,982	0	415,982
Other Support Services	317,262	0	317,262
Community Services	48,468	0	48,468
Food Service	0	340,843	340,843
Capital Outlay	0	947,354	947,354
Total Expenditures	<u>\$8,700,527</u>	<u>\$1,288,197</u>	<u>\$9,988,724</u>
Excess of Revenues Over (Under) Expenditures	\$8,877	(\$341,020)	(\$332,143)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	10,000	0	10,000
Transfers Out	0	(10,000)	(10,000)
Total Other Financing Sources (Uses)	<u>\$10,000</u>	<u>(\$10,000)</u>	<u>\$0</u>
Net Change in Fund Balance	\$18,877	(\$351,020)	(\$332,143)
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>774,086</u>	<u>624,100</u>	<u>1,398,186</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$792,963</u>	<u>\$273,080</u>	<u>\$1,066,043</u>

See notes to the financial statements.

BYRON AREA SCHOOLS - BYRON, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Total net change in fund balances - governmental funds (\$332,143)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Construction in Progress	\$312,324	
Capital Outlay	701,742	
Depreciation Expense	(162,614)	
Loss on Sale of Assets	(62,040)	
Total		789,412

Payments on Bus Installment Loan 27,246

Change in accrued compensated absences (11,530)

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

State Aid Funding for Pension and Other Postemployment Benefits		(661,517)
Pension Related Items		267,148
OPEB Related Items		152,209

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$230,825

BYRON AREA SCHOOLS - BYRON, MICHIGAN
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2018

	Trust & Agency
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$167,582</u>
<u>LIABILITIES</u>	
Due to Student Groups	<u>\$167,582</u>

See notes to the financial statements.

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) DESCRIPTION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. All fiduciary activities are reported only in the fund financial statements. Governmental activities normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

B) REPORTING ENTITY

The District is governed by an elected seven-member Board of Education. The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB 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 part of the District's reporting entity and which organizations are legally separate component units of the District. Based on application of the criteria, the District does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

C) GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenue are reported instead as general revenue.

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

D) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

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

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

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

When an expense is incurred for the purpose for which both restricted and unrestricted net position or fund balance are available, the School District's policy is to first apply restricted resources. When an expense is incurred for purposes which amounts in any of the unrestricted fund balance classifications could be used, it is the School District's policy to spend funds in this order: committed, assigned, and unassigned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

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. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the School District considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, 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 School District.

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

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

The School District reports the following major governmental fund:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for and reported in another fund.

The School District reports the following fund types:

Special Revenue Funds - Special revenue funds are used to segregate, for administrative purposes, the transactions of the School District's food service operations from General Fund revenue and expenditure accounts. The School District maintains full control of these funds. Any deficits generated by these activities are the responsibility of the General Fund. The main sources of revenue for these funds are food sales to pupils, free/reduced breakfast and lunch reimbursement from federal funds and funds received from the State.

Capital Projects Sinking Funds - The Capital Projects Sinking Funds records capital project activities funded with Sinking Fund millage. For this fund, the school district has complied with the applicable provision of §1212 of the Revised School Code.

Building and Site Capital Projects Funds - The Building and Site Capital Projects Funds are used to record bond proceeds or other revenue and the disbursement of funds specifically designated for acquiring new school sites, buildings, equipment, and for remodeling and repairs. The funds operate until the purpose for which they were created is accomplished.

Student Activities Agency Fund - The School District maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in the fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In the fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in the fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

E) CASH AND CASH EQUIVALENTS/INVESTMENTS

Cash and cash equivalents include amounts in demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity.

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E) CASH AND CASH EQUIVALENTS/INVESTMENTS (Continued)

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

F) INVENTORIES AND PREPAID COSTS

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds, including commodities received from the United States Department of Agriculture, are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Land Improvements	5 – 25 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net position.

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I) UNEARNED REVENUE

The District reports unearned revenue on its governmental funds balance sheet. Unearned revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

J) COMPENSATED ABSENCES

The liability for compensated absences reported in the government-wide statements consists of earned but unused accumulated vacation, sick leave, and severance 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 are included both for employees who are currently eligible to receive termination payments and for other employees who are expected to become eligible in the future to receive such payments upon termination.

K) LONG-TERM OBLIGATIONS

In the government-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. Bond issuance costs are reported as debt service expenditures.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

L) DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred Outflows

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

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L) DEFERRED OUTFLOWS/INFLOWS OF RESOURCES (Continued)

Deferred Inflows

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

M) DEFINED BENEFIT PLAN

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

N) FUND BALANCE

Fund balances for each of the District's governmental funds are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- * Nonspendable fund balance - amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- * Restricted fund balance - amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation. The District's Capital Projects Fund, and Food Service fund balances are considered restricted.
- * Committed fund balance – amounts that have been formally set aside by specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.
- * Assigned fund balance - amounts the District intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. The intent is expressed by the Board of Education.
- * Unassigned fund balance - amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

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

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O) NET POSITION

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

P) BUDGETARY INFORMATION

Budgetary basis of accounting:

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

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

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end June 30, 2018. The District does not consider these amendments to be significant.

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

2) DEPOSITS AND INVESTMENTS

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

<u>Investment Type</u>	<u>Fair value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Standard & Poor's Rating</u>	<u>%</u>
MILAF External Investment Pool - MICMS	\$ 380	N/A	AAAm	0.03%
MILAF External Investment Pool - MIMAX	1,325,931	N/A	AAAm	99.97%
Total fair value	<u>\$ 1,326,311</u>			<u>100.00%</u>

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2018, the fair value of the District’s investments is the same as the value of the pooled shares.

MILAF funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

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

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

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of June 30, 2018, \$963,565 of the District’s bank balance of \$1,463,565 was exposed to custodial credit risk because it was uninsured.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

2) DEPOSITS AND INVESTMENTS (Continued)

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

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

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair measurement level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

MILAF-MIMAX investments fair value measurement is level 2.

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

Cash Agency Fund	\$ 167,582
Cash – District Wide	1,394,256
Investments – District Wide	<u>1,326,311</u>
<u>TOTAL</u>	<u>\$ 2,888,149</u>

The above amounts as previously reported in Note 2:

Petty Cash	\$ 75
Cash/Savings Accounts – Including Fiduciary Funds of \$167,582	1,561,763
Investments	<u>1,326,311</u>
<u>TOTAL</u>	<u>\$ 2,888,149</u>

3) PROPERTY TAXES

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

4) RECEIVABLES

Receivables at June 30, 2018, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 1,351,547
Federal Grants	3,054
Other	167,519
 <u>TOTAL GOVERNMENTAL ACTIVITIES</u>	 <u>\$ 1,522,120</u>

5) CAPITAL ASSETS

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

	<u>Balance</u> <u>Beginning</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>Ending</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Land, Not Being Depreciated	\$220,429	\$0	\$0	\$220,429
Buildings and Improvements	3,605,140	653,103	162,415	4,095,828
Land Improvements	1,842,130	0	0	1,842,130
Equipment and Furniture	620,487	22,367	67,442	575,412
Vehicles and Buses	1,119,842	26,272	0	1,146,114
Totals at Historical Cost	<u>\$7,408,028</u>	<u>\$701,742</u>	<u>\$229,857</u>	<u>\$7,879,913</u>
Less: Accumulated Depreciation				
Buildings and Improvements	(2,306,128)	(95,897)	(101,250)	(2,300,775)
Land Improvements	(1,774,184)	(17,100)	0	(1,791,284)
Equipment and Furniture	(580,340)	(6,498)	(66,567)	(520,271)
Vehicles and Buses	(952,660)	(43,119)	0	(995,779)
Total Accumulated Depreciation	<u>(\$5,613,312)</u>	<u>(\$162,614)</u>	<u>(\$167,817)</u>	<u>(\$5,608,109)</u>
 <u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$1,794,716</u>	<u>\$539,128</u>	<u>\$62,040</u>	<u>\$2,271,804</u>

Depreciation expense was unallocated on the Statement of Activities as the District considers all fixed assets to have mixed use.

6) SHORT-TERM DEBT

The District has approved borrowing \$2,353,000 at 1.34% interest per annum on State Aid Anticipation Note to meet cash flow needs for the 2017-2018 fiscal year. The notes were issued August 22, 2017 and are to be repaid August 21, 2018.

	<u>Balance</u> <u>Beginning</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>Ending</u>
State Aid Note Payable	<u>\$2,450,000</u>	<u>\$2,353,000</u>	<u>\$2,450,000</u>	<u>\$2,353,000</u>

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

7) GENERAL LONG-TERM DEBT

A) Bus Installment Note

On December 16, 2013, the District borrowed funds from Holland Bus Company to finance the purchase of two Blue Bird buses. The balance at the end of June 30, 2018 was \$44,149. The note requires monthly payments of \$2,358 including interest at 1.79% and matures in January 2020. Payments on this debt are recorded in the District's General Fund.

B) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2018 are as follows:

	Bus Installment Note	Interest	Total
June 30, 2019	\$27,738	\$563	\$28,301
June 30, 2020	16,411	98	16,509
<u>TOTAL</u>	<u>\$44,149</u>	<u>\$661</u>	<u>\$44,810</u>

The interest expenditures on long-term obligations for the year were \$986.

C) CHANGES IN GENERAL LONG-TERM DEBT

<u>Governmental Activities:</u>	Balance Beginning	Additions	Deductions	Balance Ending	Amount Due in One Year
Sick Days Payable	\$95,081	\$11,530	\$0	\$106,611	N/A
Bus Installment Note	71,395	0	27,246	44,149	27,738
<u>TOTAL</u>	<u>\$166,476</u>	<u>\$11,530</u>	<u>\$27,246</u>	<u>\$150,760</u>	<u>\$27,738</u>

8) OPERATING LEASES

On October 11, 2013, the District leased copier equipment from Brady's Business Systems. The lease is for 63 months and requires monthly payments of \$4,657.

The future minimum payments are as follows:

YEAR ENDING	AMOUNT
<u>JUNE 30,</u>	
2019	<u>\$ 32,600</u>

9) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2018, consisted of the following:

TRANSFERS TO	TRANSFERS FROM
	Food Service
General Fund	<u>\$10,000</u>

Transfers are made to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

10) TAX ABATEMENTS

The District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions granted by cities and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities. There were no property taxes abated.

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

There are no significant abatements made by the District.

11) RESTRICTED NET POSITION

Restricted net position consists of the following:

Capital Projects	<u>\$222,876</u>
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12) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS

Plan Description

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

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 option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

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 of the system.

Benefits Provided - Overall

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

<u>Plan name</u>	<u>Plan Type</u>	<u>Plan status</u>
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined Contribution	Open

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

12) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Benefits Provided – Pension

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

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

Pension Reform 2010

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

Pension Reform 2012

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

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

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

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

* Basic plan members: 4% contribution

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

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

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

12) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Pension Reform 2012 (Continued)

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

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

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

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

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

Pension Reform of 2017

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

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

12) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Benefits Provided – Other postemployment benefit (OPEB)

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

Retiree Healthcare Reform of 2012

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

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

Regular Retirement (no reduction factor for age)

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

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

Member Contributions

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

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

12) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Employer Contributions

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

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

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

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

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

The District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately \$1,418,000, with \$1,404,000 specifically for the Defined Benefit Plan.

The District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total. OPEB benefits were approximately \$356,000, with \$345,000 specifically for the Defined Benefit Plan.

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

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

Pension Liabilities

At June 30, 2018, the District reported a liability of \$13,977,963 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the District's proportion was 0.05393929 and 0.05489052 percent.

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

12) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

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

Pension Liabilities (Continued)

<u>MPSERS (Plan) Non-University Employers</u>	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Total Pension Liability	\$72,407,218,688	\$67,917,445,078
Plan Fiduciary Net Position	46,492,967,573	42,968,263,308
Net Pension Liability	25,914,251,115	24,949,181,763
Proportionate Share	0.05393929%	0.05489052%
Net Pension Liability for the District	13,977,963	13,694,736

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

For the year ended September 30, 2017, the District recognized pension expense of \$1,137,128.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions	\$2,085	(\$630,605)
Differences Between Expected and Actual Experience	121,478	(68,587)
Changes of Assumptions	1,531,397	0
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	0	(668,239)
Reporting Unit's Contributions Subsequent to the Measurement Date	<u>1,288,361</u>	<u>0</u>
<u>TOTAL</u>	<u>\$2,943,321</u>	<u>(\$1,367,431)</u>

\$1,288,361 is reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

<u>Year Ending Sept. 30,</u>	<u>Amount</u>
2018	(\$57,072)
2019	247,001
2020	153,239
2021	(55,639)

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

12) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

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

OPEB Liabilities

At June 30, 2018, the District reported a liability of \$4,791,669 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017, the District's proportion was 0.05410970 percent.

<u>MPSERS (Plan) Non-University Employers</u>	<u>September 30, 2017</u>
Total Other Postemployment Benefits Liability	\$13,920,945,991
Plan Fiduciary Net Position	5,065,474,948
Net Other Postemployment Benefits Liability	8,855,471,043
Proportionate Share	0.05410970
Net Other Postemployment Benefits Liability for the District	4,791,669

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

For the year ended September 30, 2017, the District recognized OPEB expense of \$320,861.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions	\$1,600	\$0
Differences Between Expected and Actual Experience	0	(51,017)
Changes of Assumptions	0	0
Net Difference Between Projected and Actual OPEB Plan Investment Earnings	0	(110,976)
Reporting Unit's Contributions Subsequent to the Measurement Date	<u>294,817</u>	<u>0</u>
<u>TOTAL</u>	<u>\$296,417</u>	<u>(\$161,993)</u>

\$294,817 is reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

12) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

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

<u>Year Ending Sept. 30,</u>	<u>Amount</u>
2018	(\$38,788)
2019	(38,788)
2020	(38,788)
2021	(38,788)
2022	(5,241)

Actuarial Assumptions

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

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

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

Inflation – 3.0%

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

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

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

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

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

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

12) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Actuarial Assumptions (Continued)

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

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

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

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

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

Investment Category	Target Allocation*	Long-term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.6%
Private Equity 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)%
Total	100.0%	

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

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

OPEB Discount rate – The discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that school district’s 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.

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

12) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Actuarial Assumptions (Continued)

Sensitivity of the net pension liability to changes in the discount rate - The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for Pension Plus Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Pension		
	1% Decrease (6.5% / 6.0%)	Discount Rate (7.5% / 7.0%)	1% Increase (8.5% / 8.0%)
Reporting Unit's proportionate share of the net pension liability	\$18,208,637	\$13,977,963	\$10,416,005

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

	Other Postemployment Benefit		
	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Reporting Unit's proportionate share of the net other postemployment benefit liability	\$5,612,429	\$4,791,669	\$4,095,100

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

	Other Postemployment Benefit		
	1% Decrease (6.5% decreasing to 2.5%)	Healthcare cost trend rates (7.5% decreasing to 3.5%)	1% Increase (8.5% decreasing to 4.5%)
Reporting Unit's proportionate share of the net other postemployment benefit liability	\$4,057,899	\$4,791,669	\$5,624,813

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

12) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Pension and OPEB Plan Fiduciary Net Position

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

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

Other Information

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

13) NEW ACCOUNTING STANDARDS

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

Summary:

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

	Governmental Activities
Net Position as previously stated July 1, 2017	(\$9,642,795)
Adoption of GASB statement No. 75	
Net Other Postemployment Benefits Liability	(5,054,149)
Deferred Outflows	402,144
Deferred Inflows	(157,449)
 <u>NET POSITION AS RESTATED JULY 1, 2017</u>	 (\$14,452,249)

BYRON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

14) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and worker's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

15) SUBSEQUENT EVENTS

In August, 2018, the District borrowed \$2,100,000 on two state aid anticipation notes. The note proceeds will be used to meet cash flow needs for the 2018-2019 fiscal year.

Issuance	Amount	Interest Rate	Due
2018-1(Set-Aside)	\$ 1,050,000	1.75%	8/20/19
2018A-2	1,050,000	2.5%	8/20/19
<u>TOTAL</u>	<u>\$ 2,100,000</u>		

16) UPCOMING ACCOUNTING PRONOUNCEMENTS

- A) Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and will be effective for the District's 2020 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.
- B) Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the District's 2021 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

REQUIRED SUPPLEMENTARY
INFORMATION

BYRON AREA SCHOOLS - BYRON, MICHIGAN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
<u>REVENUES</u>				
Local Sources	\$615,639	\$1,024,940	\$723,768	(\$301,172)
State Sources	7,247,946	7,464,846	7,442,588	(22,258)
Federal Sources	175,011	240,339	182,363	(57,976)
Total Revenues	\$8,038,596	\$8,730,125	\$8,348,719	(\$381,406)
<u>EXPENDITURES</u>				
Instruction	5,484,261	5,882,905	5,881,097	1,808
Pupil Services	195,600	190,410	190,409	1
Instructional Support	139,890	147,193	113,585	33,608
General Administration	281,439	299,097	293,849	5,248
School Administration	491,972	481,713	475,584	6,129
Fiscal Services & Other Business Services	125,726	483,535	172,271	311,264
Operation & Maintenance of Plant	770,642	784,231	792,020	(7,789)
Transportation	441,884	418,765	415,982	2,783
Other Support Services	348,789	310,170	317,262	(7,092)
Community Services	41,195	51,183	48,468	2,715
Total Expenditures	\$8,321,398	\$9,049,202	\$8,700,527	\$348,675
Excess of Revenues Over Expenditures	(\$282,802)	(\$319,077)	(\$351,808)	(\$32,731)
<u>OTHER FINANCING SOURCES (USES)</u>				
Net Change in Fund Balance	\$0	\$17,597	\$18,877	\$1,280
<u>FUND BALANCE - BEGINNING OF YEAR</u>			774,086	
<u>FUND BALANCE - END OF YEAR</u>			\$792,963	

BYRON AREA SCHOOLS - BYRON, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH FISCAL YEAR)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Reporting unit's proportion of net pension liability (%)							0.05394%	0.05489%	0.05496%	0.05981%
Reporting unit's proportionate share of net pension liability							\$13,977,963	\$13,694,736	\$13,423,557	\$13,174,587
Reporting unit's covered-employee payroll							\$4,484,120	\$4,640,439	\$4,595,227	\$5,087,815
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll							311.72%	295.12%	292.12%	258.94%
Plan fiduciary net position as a percentage of total pension liability							64.21%	63.27%	63.17%	66.20%

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

BYRON AREA SCHOOLS - BYRON, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S CONTRIBUTIONS - PENSION
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions							\$1,265,163	\$1,253,534	\$1,060,215	\$928,923
Contributions in relation to statutorily required contributions							<u>1,265,163</u>	<u>1,253,534</u>	<u>1,060,215</u>	<u>928,923</u>
Contribution deficiency (excess)							<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Reporting unit's covered-employee payroll							\$4,359,997	\$4,478,865	4,477,617	4,672,036
Contributions as a percentage of covered-employee payroll							29.02%	27.99%	23.68%	19.88%

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

BYRON AREA SCHOOLS - BYRON, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH FISCAL YEAR)

	2025	2024	2023	2022	2021	2020	2019	2018	2017
Reporting unit's proportion of net OPEB liability (%)									0.05411%
Reporting unit's proportionate share of net OPEB liability									\$4,791,669
Reporting unit's covered-employee payroll									\$4,484,120
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll									106.86%
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)									36.39%

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

BYRON AREA SCHOOLS - BYRON, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S CONTRIBUTIONS - OPEB
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)

	<u>2027</u>	<u>2026</u>	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contributions										\$421,297
Contributions in relation to statutorily required contributions										<u>421,297</u>
Contribution deficiency (excess)										<u>\$0</u>
Reporting unit's covered-employee payroll										\$4,359,997
Contributions as a percentage of covered-employee payroll										9.66%

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

BYRON AREA SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and Special Revenue Fund (Food Service). All annual appropriations lapse at fiscal year-end.

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

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

During the year, Byron Area Schools did not have significant expenditure budget variances.

PENSION AND OPEB RELATED

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

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

ADDITIONAL SUPPLEMENTARY
INFORMATION

BYRON AREA SCHOOLS - BYRON, MICHIGAN
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>Food Service</u>	<u>Sinking Capital Projects Fund</u>	<u>Capital Projects Fund</u>	<u>Total Other Governmental Funds</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$35,390	\$133,322	\$86,029	\$254,741
Receivables:				
Accounts Receivable	0	3,525	0	3,525
Due From Other Governmental Units	5,449	0	0	5,449
Inventory	10,495	0	0	10,495
<u>TOTAL ASSETS</u>	<u>\$51,334</u>	<u>\$136,847</u>	<u>\$86,029</u>	<u>\$274,210</u>
<u>LIABILITIES</u>				
Salaries Payable	\$1,130	\$0	\$0	\$1,130
<u>FUND BALANCES</u>				
Non-Spendable				
Inventory	10,495	0	0	10,495
Restricted				
Food Service	39,709	0	0	39,709
Capital Projects	0	136,847	86,029	222,876
Total Fund Balances	<u>\$50,204</u>	<u>\$136,847</u>	<u>\$86,029</u>	<u>\$273,080</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$51,334</u>	<u>\$136,847</u>	<u>\$86,029</u>	<u>\$274,210</u>

BYRON AREA SCHOOLS - BYRON, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	Food Service	Sinking Capital Projects Fund	Capital Projects Fund	Total Other Governmental Funds
<u>REVENUES</u>				
Local Sources	\$151,136	\$577,830	\$0	\$728,966
State Sources	10,840	0	0	10,840
Federal Sources	207,371	0	0	207,371
Total Revenues	<u>\$369,347</u>	<u>\$577,830</u>	<u>\$0</u>	<u>\$947,177</u>
<u>EXPENDITURES</u>				
Food Service				
Salaries - Non-Professional	115,193	0	0	115,193
Insurances	12,753	0	0	12,753
Fica, Retirement, Etc.	38,895	0	0	38,895
Purchased Services	7,121	0	0	7,121
Supplies and Materials	161,052	0	0	161,052
Capital Outlay	0	947,354	0	947,354
Other	5,829	0	0	5,829
Total Expenditures	<u>\$340,843</u>	<u>\$947,354</u>	<u>\$0</u>	<u>\$1,288,197</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$28,504	(\$369,524)	\$0	(\$341,020)
<u>OTHER FINANCING USES</u>				
Transfers to Other Funds	10,000	0	0	10,000
Net Change in Fund Balance	<u>\$18,504</u>	<u>(\$369,524)</u>	<u>\$0</u>	<u>(\$351,020)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>31,700</u>	<u>506,371</u>	<u>86,029</u>	<u>624,100</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$50,204</u>	<u>\$136,847</u>	<u>\$86,029</u>	<u>\$273,080</u>

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

BYRON AREA SCHOOLS - BYRON, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
YEAR ENDED JUNE 30, 2018

REVENUES FROMLocal Sources

Property Tax Levy	\$449,539
Earnings on Investments and Deposits	15,951
Tuition	64,290
Athletics	32,963
Childcare Fees	75,624
Kids Kamp Fees	5,945
Preschool School Fees	17,676
Other Local Revenues	61,780
Total Revenues from Local Sources	<u>\$723,768</u>

State Sources

State Aid	6,290,300
At Risk	189,966
Special Education	144,102
Other State Grants	818,220
Total Revenues from State Sources	<u>\$7,442,588</u>

Federal Sources

Title I	136,336
Improving Teacher Quality	31,206
Medicaid	5,071
Other Federal Grants	9,750
Total Revenues from Federal Sources	<u>\$182,363</u>

Interdistrict Sources

Total Revenues	<u>360,685</u>
	<u>\$8,709,404</u>

OTHER FINANCING SOURCES

Transfers from Other Funds	<u>10,000</u>
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TOTAL REVENUES AND OTHER FINANCING SOURCES

\$8,719,404

BYRON AREA SCHOOLS - BYRON, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2018

INSTRUCTIONBasic ProgramsElementary

Salaries - Professional	\$1,204,328
Salaries - Non-Professional	2,911
Insurances	207,278
Fica, Retirement, Etc.	1,051,150
Purchased Services	25,364
Supplies and Materials	38,145
Other	555
Total Elementary	<u>\$2,529,731</u>

Middle School

Salaries - Professional	366,230
Salaries - Non-Professional	7,003
Insurances	63,760
Fica, Retirement, Etc.	128,159
Purchased Services	21,728
Supplies and Materials	12,401
Total Middle School	<u>\$599,281</u>

High School

Salaries - Professional	834,808
Salaries - Non-Professional	22,075
Insurances	199,727
Fica, Retirement, Etc.	282,641
Purchased Services	274,167
Supplies and Materials	20,503
Total High School	<u>\$1,633,921</u>

Pre-School

Salaries - Professional	49,096
Salaries - Non-Professional	19,509
Insurance	7,044
Fica, Retirement, Etc.	23,003
Purchased Services	167
Supplies and Materials	5,662
Total Pre-School	<u>\$104,481</u>

Drivers Education

Salaries - Non-Professional	29,108
Fica, Retirement, Etc.	9,264
Supplies and Materials	25
Total Preschool	<u>\$38,397</u>

Total Basic Programs	<u>\$4,905,811</u>
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BYRON AREA SCHOOLS - BYRON, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2018

INSTRUCTION (Continued)

ADDED NEEDS

SPECIAL EDUCATION

Salaries - Professional	\$268,752
Salaries - Non-Professional	14,402
Insurances	67,967
Fica, Retirement, Etc.	92,785
Purchased Services	5,238
Supplies and Materials	994
Total Special Education	\$450,138

COMPENSATORY EDUCATION

Salaries - Professional	52,900
Salaries - Non-Professional	16,943
Insurances	16,407
Fica, Retirement, Etc.	21,418
Supplies and Materials	58,770
Total Compensatory Education	\$166,438

VOCATIONAL EDUCATION

Salaries - Professional	149,279
Salaries - Non-Professional	18,061
Insurances	30,074
Fica, Retirement, Etc.	50,311
Purchased Services	5,787
Supplies and Materials	43,819
Capital Outlay	52,719
Other	8,660
Total Vocational Education	\$358,710

Total Added Needs	\$975,286
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<u>Total Instruction</u>	\$5,881,097
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SUPPORT SERVICES

STUDENT SERVICES

Salaries - Professional	76,060
Salaries - Non-Professional	15,462
Insurances	16,392
Fica, Retirement, Etc.	29,995
Other	52,500
Total Student Services	\$190,409

BYRON AREA SCHOOLS - BYRON, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2018

SUPPORT SERVICES (Continued)

INSTRUCTIONAL SUPPORT

Salaries - Professional	\$37,569
Salaries - Non-Professional	6,910
Insurances	6,390
Fica, Retirement, Etc.	10,991
Purchased Services	9,974
Supplies and Materials	700
Capital Outlay	7,917
Other	33,134
Total Instructional Support	\$113,585

GENERAL ADMINISTRATION

Salaries - Professional	115,624
Salaries - Non-Professional	42,500
Insurances	17,605
Fica, Retirement, Etc.	50,860
Purchased Services	58,310
Supplies and Materials	1,659
Other	7,291
Total General Administration	\$293,849

SCHOOL ADMINISTRATION

Salaries - Professional	174,873
Salaries - Non-Professional	103,843
Insurances	56,541
Fica, Retirement, Etc.	92,172
Purchased Services	41,266
Supplies and Materials	6,889
Total School Administration	\$475,584

BUSINESS OFFICE

Salaries - Professional	62,326
Salaries - Non-Professional	53
Insurances	11,205
Fica, Retirement, Etc.	44,353
Purchased Services	4,384
Supplies and Materials	2,020
Other	47,930
Total Business Office	\$172,271

BYRON AREA SCHOOLS - BYRON, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2018

SUPPORT SERVICES (Continued)

OPERATION & MAINTENANCE OF PLANT

Salaries - Professional	\$29,573
Salaries - Non-Professional	245,839
Insurances	54,724
Fica, Retirement, Etc.	96,921
Purchased Services	91,440
Supplies and Materials	258,208
Capital Outlay	15,315
Total Operation and Maintenance of Plant	\$792,020

TRANSPORTATION

Salaries - Professional	28,403
Salaries - Non-Professional	159,585
Insurances	17,437
Fica, Retirement, Etc.	64,150
Purchased Services	17,384
Supplies and Materials	93,885
Capital Outlay	30,777
Other	4,361
Total Transportation	\$415,982

OTHER SUPPORT SERVICES

Salaries - Non-Professional	62,330
Fica, Retirement, Etc.	20,633
Purchased Services	99,267
Supplies	12,123
Capital Outlay	10,625
Other	112,284
Total Other Support Services	\$317,262

Total Support Services	\$2,770,962
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COMMUNITY SERVICES

Salaries - Non-Professional	34,013
Insurance	1,716
Fica, Retirement, Etc.	11,224
Supplies and Materials	1,515
Total Community Services	\$48,468

<u>TOTAL EXPENDITURES</u>	\$8,700,527
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September 27, 2018

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

To the Board of Education of
Byron Area Schools

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 Byron Area Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Byron Area Schools' basic financial statements, and have issued our report thereon dated September 27, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Lewis & Knopf, P.C.

LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



September 27, 2018

To the Board of Education of
Byron Area Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Byron Area Schools for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 28, 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 Byron Area Schools are described in Note 1 to the financial statements. During 2017, Byron Area Schools implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The application of existing policies was not changed during the 2017-2018 year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Estimates have been used to calculate the net pension and net OPEB liabilities.

Estimates have been used in calculating the liability for employee compensated absences.

The useful lives of its depreciable 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.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 27, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit'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 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.

Other Matters

We applied certain limited procedures to required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Restriction on Use

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

Very truly yours,



LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS