

Armada Area Schools
Financial Statements
June 30, 2019



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Armada Area Schools
Members of the Board of Education and Administration
June 30, 2019

Members of the Board of Education

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Cheryl Murray	Vice President
Judy Tobey	Secretary
Susan Nieman	Treasurer
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Administration

Michael Musary	Superintendent
Heather Urbanek	Business Supervisor
Josie Meyers	Business Analyst



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Independent Auditors' Report

Management and the Board of Education
Armada 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 Armada Area Schools, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Armada Area Schools, as of June 30, 2019, 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.

Other Matters:

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2019 on our consideration of the Armada 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 Armada 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 Armada Area Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Flint, MI
October 8, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Armada Area Schools

Management's Discussion and Analysis

Armada Area Schools, a K-12 public school district located in Macomb and St. Clair Counties in Michigan, is in its 16th year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) and 5th year for GASB 68 with the enclosed financial statements.

The Management's discussion and Analysis, a requirement of GASB 34, is intended to be Armada Area Schools' discussion and analysis of the financial results for the fiscal year ended June 30, 2019. Generally Accepted Accounting Principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a long-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the District's operations in more detail than the district-wide financial statements by providing information about the District's most significant or major fund, the General Fund, and with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents.

Financial Section

- Basic Financial Statements
 - District-wide Financial Statements
 - Fund Financial Statements
 - Fiduciary Fund
 - Notes to Financial Statements
- Required Supplemental Information
 - Budgetary Comparison Schedules
- Other Supplemental Information
 - Combining Balance Sheet Non-major Governmental Funds
 - Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Non-major Governmental Funds

Armada Area Schools

Management's Discussion and Analysis

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

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

These two statements report the Armada Area District's net position – the difference between assets and liabilities, as reported in the statement of net position – as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results. Many non-financial factors, such as the quality of the education provided and the safety of the schools, must be considered to assess the overall health of the District.

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

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

The District's fund financial statements provide detailed information about the most significant funds, not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, the District establishes many other funds to help it control and manage money for particular purposes, such as the Food Services and Community Enrichment Funds. Funds are also established to show that it's meeting legal responsibilities for using certain taxes, grants, and other money, including the District's four Debt Funds.

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

Armada Area Schools

Management's Discussion and Analysis

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

The District acts as the trustee for its student activity funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net position. These activities are excluded from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Armada Area Schools

Management's Discussion and Analysis

The District as a Whole

The statement of net position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2019.

	2017-2018 Governmental Activities	2018-2019 Governmental Activities
Assets		
Current and other assets	\$ 12,669,173	\$ 7,382,486
Capital assets	<u>36,897,623</u>	<u>40,566,754</u>
Total assets	49,566,796	47,949,240
Deferred outflow of resources	6,931,851	12,160,355
Total assets and deferred outflows of resources	<u>56,498,647</u>	<u>60,109,595</u>
Liabilities		
Current liabilities	3,587,940	3,222,720
Long-term liabilities	<u>82,950,725</u>	<u>84,375,801</u>
Total liabilities	86,538,665	87,598,521
Total liabilities and deferred inflows of resources	<u>89,871,851</u>	<u>93,281,905</u>
Net position		
Net investment in capital assets	(2,278,863)	(1,074,579)
Restricted	813,312	386,461
Unrestricted	<u>(31,907,653)</u>	<u>(32,484,192)</u>
Total net position (deficit)	<u>\$ (33,373,204)</u>	<u>\$ (33,172,310)</u>

The above analysis focuses on the net position (see Table 1).

Armada Area Schools

Management's Discussion and Analysis

The change in net position (see Table 2) of the District's governmental activities is discussed below. The District's net position was \$200,894 at June 30, 2019. Total net position factors all district related debt. The primary reason the net position being positive is due to revenue greater than expenditures. Capital assets, net of related debt, totaled \$ (1.1) million. This compares the original cost, less depreciation of the District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes.

The restricted amount of net position, \$ 0.39 million, was restricted for capital projects. The remaining amount of net position, \$ (32.5) million, was unrestricted. The \$ (32.5) million in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal years 2018 and 2019.

	2018 Governmental Activities	2019 Governmental Activities
Revenue		
Program revenue:		
Charges for services	\$ 660,619	\$ 677,271
Operating grants	2,106,352	1,974,873
General revenue:		
Property taxes	6,342,223	6,449,754
State Aid - unrestricted	12,133,789	12,192,394
Other	348,622	225,631
Total revenue	<u>21,591,605</u>	<u>21,519,923</u>
Functions/Program Expenses		
Instruction	11,618,344	11,795,158
Support services	6,949,905	7,380,054
Food services	358,647	381,846
Community services	254,434	254,451
Interest on long-term debt	1,237,410	1,507,520
Total expenses	<u>20,418,740</u>	<u>21,319,029</u>
Change in net position	1,172,865	200,894
Net position (deficit) – beginning, as restated	<u>(34,546,069)</u>	<u>(33,373,204)</u>
Net position (deficit) - ending	<u>\$ (33,373,204)</u>	<u>\$ (33,172,310)</u>

Armada Area Schools

Management's Discussion and Analysis

As reported in the statement of activities, the cost of all *governmental* activities this year was \$ 21.3 million. Certain activities were partially funded from those who benefited from the programs - \$.7 million or by other governments and organizations that subsidized certain programs with grants and contributions - \$ 2.0 million. The remaining "public benefit" portion of governmental activities was funded with \$ 6.4 million in taxes, \$ 12.2 million in State foundation allowance, and with \$ 0.22 million other revenues, such as bond refunding, interest and general entitlements.

The District experienced an increase in net position of \$ 200,894. The assets increased primarily as a result of ongoing operations in the District.

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

The District's Funds

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

As the District completed this year, the governmental funds reported a combined fund balance of \$ 4.3 million; a decrease of \$ 4.9 million from the prior year due to spending funds from the 2018 building and site bond issue and the technology bond. The changes by major and non-major funds are as follows:

	<u>General Fund</u>	<u>Other Non-Major Funds</u>	<u>Total</u>
Fund balances - Beginning of year	\$ 1,705,729	\$ 7,580,091	\$ 9,285,820
Increase (decrease)	<u>(121,170)</u>	<u>(4,823,267)</u>	(4,944,437)
Fund balances - End of year	<u>\$ 1,584,559</u>	<u>\$ 2,756,824</u>	\$ 4,341,383

Armada Area Schools

Management's Discussion and Analysis

In the General Fund, our principal operating fund, the fund balance decreased by \$ 0.1 million from last year. Expenditure increases are a normal part of operations as a result of salary and benefit increases, increased costs for utilities, and other operating expenses. The district was able to function under budget in several expenditure areas including utilities, maintenance expenditures, and transportation expenses including bus fuel. The fund balance of the General Fund is available to fund costs related to allowable school operating purposes through the undesignated portion. The designated portion has specific projects and/or purposes.

The other major and non-major funds decreased by \$ 4.8 million, which was primarily due spending down the 2018 Building and Site Bond and the technology fund. The other non-major funds provide for services, (i.e. Food Service, Community Education), major renovations (Sinking Fund), and for the retirement of debt and for capital improvements had a \$0.0 million decrease in fund equity. The goal of these funds is to offer programs for students and capital improvements not develop fund equity.

Armada Area Schools

Management's Discussion and Analysis

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The financial amendment to the budget was actually adopted just before year end. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

There were two revisions made to the original 2018-19 General Fund budget in February 2019 and May 2019. The original General Fund budget approved by the Board in June 2018 had an estimated fund equity net loss of \$ 0.35 million for June 30, 2019. The actual June 30, 2019 fund equity had a net loss of \$ 0.1 million with a total fund equity of \$ 1,584,559. The district operated on a minimal needs spending status most of the school year, which contributed to actual expenditures being lower than the final budget. The district also benefited financially from staff attrition, lower utility and transportation costs than prior years, and a higher student count than the original budget. However, the district continues to be concerned about State funding, the increased cost of health care, the retirement rate, future gasoline and utility rates. In addition, Federal funds are "drying up" and the district will not have access to as many federal grants as in years past.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2019, the District had \$ 40.6 million invested in a broad range of capital assets, including land, buildings, and furniture and equipment. The previous two years are listed below.

	2018	2019
Land, buildings and improvements	\$ 53,477,828	\$ 57,659,479
Furniture and equipment	11,522,294	11,992,121
Buses and other vehicles	1,670,391	1,703,909
Less: accumulated depreciation	(29,772,890)	(30,788,755)
Total capital assets	<u>\$ 36,897,623</u>	<u>\$ 40,566,754</u>

In November 2013, the community passed a 10-year renewal on a 0.8394 mill sinking fund, and a 10-year renewal on the Headlee 18 mills. Both of these renewal issues will benefit the school district.

Armada Area Schools

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the District's 2018 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2019 fiscal year is 10 percent of the February 2018 and 90 percent of the October 2018 student counts; this is the 9th year of the new formula. The 2019-20 budget was adopted in May 2019, based on a 25 student decrease - 1,742 total. Preliminary numbers show the District's actual count will be over 1,780 students which is an increase over 2018. The district made several cost cutting measure for the 2019-2020 school year to balance the budget. In addition, the district will continue a minimal spending philosophy as well as seek additional grants. The district has little control over revenue. Under State law, the District cannot assess additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operations. The district will amend the 2019-20 General Fund budget in the 2020 calendar year. With the slow moving economy, future student enrollment and funding will continue to be a major concern.

Since the District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue estimating conference to estimate revenues. If actual State revenues are less than their estimates, reduction to the per pupil funding allowance may be necessary. Early State funding projections indicate that there will be a modest increase in per pupil funding in the 2019-20 school year, but inflation will take up most of the increase. School districts in Michigan continue to feel the financial effect of the last four years where Lansing chose to "raid" the School Aid Fund to fund other areas of the State's general fund budget. The cost of health insurance and the increase in fuel cost will continue to be concerns. Local school communities, including Armada, will continue to work with the legislature to provide adequate funding to schools. Because of the lack of funding, Armada has made over \$ 7.5 million in budget cuts over the last 18 years. Most of the budget reductions for 2019-20 were due to personnel attrition and lower personnel replacement cost. Armada will have to make future budget reductions to balance the budget if the State funding trend continues.

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:

Armada Area Schools
74500 Burk Street
Armada, Michigan 48005-3314

BASIC FINANCIAL STATEMENTS

Armada Area Schools
Statement of Net Position
June 30, 2019

	<u>Governmental Activities</u>
Assets	
Cash	\$ 4,679,310
Accounts receivable	78,922
Due from agency funds	294
Due from other governmental units	2,536,556
Prepaid items	87,404
Capital assets not being depreciated	1,869,365
Capital assets - net of accumulated depreciation	<u>38,697,389</u>
 Total assets	 <u>47,949,240</u>
 Deferred outflows of resources	
Deferred amount relating to the net pension liability	10,022,521
Deferred amount relating to the net OPEB liability	1,508,170
Deferred amount on debt refunding	<u>629,664</u>
 Total deferred outflows of resources	 <u>12,160,355</u>
 Total assets and deferred outflows of resources	 <u>60,109,595</u>

See Accompanying Notes to the Financial Statements

Armada Area Schools
Statement of Net Position
June 30, 2019

	<u>Governmental Activities</u>
Liabilities	
Accounts payable	\$ 897,959
State aid anticipation note payable	289,287
Due to other governmental units	210,233
Payroll deductions and withholdings	20,708
Accrued expenditures	764,319
Accrued salaries payable	970,685
Unearned revenue	69,529
Long-term liabilities	
Debt due within one year	5,635,598
Debt due in more than one year	38,959,179
Net pension liability	31,444,711
Net OPEB liability	<u>8,336,313</u>
Total liabilities	<u>87,598,521</u>
Deferred inflows of resources	
Deferred amount relating to the net pension liability	3,809,178
Deferred amount relating to the net OPEB liability	<u>1,874,206</u>
Total deferred inflows of resources	<u>5,683,384</u>
Total liabilities and deferred inflows of resources	<u>93,281,905</u>
Net Position	
Net investment in capital assets	(1,074,579)
Restricted for	
Capital projects - sinking fund	386,461
Unrestricted (deficit)	<u>(32,484,192)</u>
Total net position	<u>\$ (33,172,310)</u>

See Accompanying Notes to the Financial Statements

Armada Area Schools
Statement of Activities
For the Year Ended June 30, 2019

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services		Operating Grants and Contributions
Governmental activities				
Instruction	\$ 11,795,158	\$ 32,390	\$ 1,368,163	\$ (10,394,605)
Supporting services	7,380,054	124,424	444,075	(6,811,555)
Food services	381,846	182,833	162,635	(36,378)
Community services	254,451	337,624	-	83,173
Interest on long-term debt	1,507,520	-	-	(1,507,520)
Total governmental activities	\$ 21,319,029	\$ 677,271	\$ 1,974,873	(18,666,885)
General revenues				
Property taxes, levied for general purposes				2,742,932
Property taxes, levied for debt service				3,312,040
Property taxes, levied for sinking fund				394,782
State aid - unrestricted				12,192,394
Interest and investment earnings				169,509
Gain on sale of capital assets				383
Other				55,739
Total general revenues				18,867,779
Change in net position				200,894
Net position - beginning				(33,373,204)
Net position - ending				\$ (33,172,310)

See Accompanying Notes to the Financial Statements

Armada Area Schools
Governmental Funds
Balance Sheet
June 30, 2019

	General Fund	Capital Projects Funds		Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
		Tech Bond	2018 Building & Site Bond	Funds 2005 Refunding		
Assets						
Cash	\$ 1,133,635	\$ 1,529,784	\$ 1,307,570	\$ 2,571	\$ 705,750	\$ 4,679,310
Accounts receivable	77,126	-	-	-	1,796	78,922
Due from other funds	165,296	-	-	-	78,440	243,736
Due from other governmental units	2,536,556	-	-	-	-	2,536,556
Prepaid items	87,404	-	-	-	-	87,404
Total assets	\$ 4,000,017	\$ 1,529,784	\$ 1,307,570	\$ 2,571	\$ 785,986	\$ 7,625,928
Liabilities and Fund Balance						
Liabilities						
Accounts payable	\$ 195,354	\$ -	\$ 579,669	\$ -	\$ 122,936	\$ 897,959
State aid anticipation note payable	289,287	-	-	-	-	289,287
Due to other funds	78,440	704	-	-	164,298	243,442
Due to other governmental units	210,233	-	-	-	-	210,233
Payroll deductions and withholdings	20,708	-	-	-	-	20,708
Accrued expenditures	582,702	-	-	-	-	582,702
Accrued salaries payable	970,685	-	-	-	-	970,685
Unearned revenue	68,049	-	-	-	1,480	69,529
Total liabilities	2,415,458	704	579,669	-	288,714	3,284,545
Fund Balance						
Non-spendable:						
Prepaid items	87,404	-	-	-	-	87,404
Restricted for:						
Debt service	-	-	-	2,571	80,530	83,101
Capital projects	-	1,529,080	727,901	-	386,461	2,643,442
Food service	-	-	-	-	5,995	5,995
Assigned for:						
Community education	-	-	-	-	24,286	24,286
Unassigned	1,497,155	-	-	-	-	1,497,155
Total fund balance	1,584,559	1,529,080	727,901	2,571	497,272	4,341,383
Total liabilities and fund balances	\$ 4,000,017	\$ 1,529,784	\$ 1,307,570	\$ 2,571	\$ 785,986	\$ 7,625,928

See Accompanying Notes to the Financial Statements

Armada Area Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2019

Total fund balances for governmental funds	\$ 4,341,383
Total net position for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	1,869,365
Capital assets - net of accumulated depreciation	38,697,389
Deferred outflows (inflows) of resources	
Deferred inflows of resources resulting from net pension liability	(3,809,178)
Deferred outflows of resources resulting from net pension liability	10,022,521
Deferred inflows of resources resulting from net OPEB liability	(1,874,206)
Deferred outflows of resources resulting from net OPEB liability	1,508,170
Deferred outflows of resources resulting from debt refunding	629,664
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(181,617)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Net pension liability	(31,444,711)
Net OPEB liability	(8,336,313)
Compensated absences	(37,877)
Bonds payable	(40,764,587)
School bond loan payable	(3,723,945)
Other loans payable and liabilities	(68,368)
Net position of governmental activities	\$ (33,172,310)

See Accompanying Notes to the Financial Statements

Armada Area Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2019

	General Fund	Capital Projects Funds		Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
		Tech Bond	2018 Building & Site Bond	Funds 2005 Refunding		
Revenues						
Local sources	\$ 3,328,362	\$ 22,773	\$ 57,941	\$ 54,769	\$ 3,933,885	\$ 7,397,730
State sources	13,255,957	-	-	-	9,687	13,265,644
Federal sources	442,845	-	-	-	152,948	595,793
Interdistrict sources	267,573	-	-	-	-	267,573
Total revenues	<u>17,294,737</u>	<u>22,773</u>	<u>57,941</u>	<u>54,769</u>	<u>4,096,520</u>	<u>21,526,740</u>
Expenditures						
Current						
Education						
Instruction	10,292,092	-	-	-	-	10,292,092
Supporting services	6,738,618	-	-	-	-	6,738,618
Food services	-	-	-	-	348,658	348,658
Community services	178,810	-	-	-	53,525	232,335
Capital outlay	126,440	422,936	4,045,614	-	839,927	5,434,917
Debt service						
Principal	71,702	-	-	2,905,000	2,495,000	5,471,702
Interest and other expenditures	4,775	-	-	392,766	1,279,259	1,676,800
Total expenditures	<u>17,412,437</u>	<u>422,936</u>	<u>4,045,614</u>	<u>3,297,766</u>	<u>5,016,369</u>	<u>30,195,122</u>
Excess (deficiency) of revenues over expenditures	<u>(117,700)</u>	<u>(400,163)</u>	<u>(3,987,673)</u>	<u>(3,242,997)</u>	<u>(919,849)</u>	<u>(8,668,382)</u>
Other Financing Sources (Uses)						
Proceeds from school bond loan fund	-	-	-	3,042,745	681,200	3,723,945
Transfers in	-	-	-	196,380	291,535	487,915
Transfers out	(3,470)	-	-	-	(484,445)	(487,915)
Total other financing sources (uses)	<u>(3,470)</u>	<u>-</u>	<u>-</u>	<u>3,239,125</u>	<u>488,290</u>	<u>3,723,945</u>
Net change in fund balance	<u>(121,170)</u>	<u>(400,163)</u>	<u>(3,987,673)</u>	<u>(3,872)</u>	<u>(431,559)</u>	<u>(4,944,437)</u>
Fund balance - beginning	<u>1,705,729</u>	<u>1,929,243</u>	<u>4,715,574</u>	<u>6,443</u>	<u>928,831</u>	<u>9,285,820</u>
Fund balance - ending	<u>\$ 1,584,559</u>	<u>\$ 1,529,080</u>	<u>\$ 727,901</u>	<u>\$ 2,571</u>	<u>\$ 497,272</u>	<u>\$ 4,341,383</u>

See Accompanying Notes to the Financial Statements

Armada Area Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2019

Net change in fund balances - Total governmental funds	\$ (4,944,437)
Total change in net position reported for governmental activities in the statement of activities is 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 and reported as depreciation expense.	
Depreciation expense	(1,676,425)
Capital outlay	5,352,373
Sale of capital assets (net book value)	(6,817)
Expenses are recorded when incurred in the statement of activities. The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in net pension liability	(4,312,874)
Net change in deferred inflows (outflows) of resources related to the net pension liability	3,527,241
The statement of net position reports the net OPEB liability and deferred outflows of resources and deferred inflows related to the net OPEB liability and OPEB expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in net OPEB liability	923,711
Net change in deferred inflows (outflows) of resources related to the net OPEB liability	(585,814)
Expenses are recorded when incurred in the statement of activities	
Interest	22,970
Compensated absences	6,899
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Debt issued	(3,723,945)
Repayments of long-term debt	5,471,702
Amortization of premiums	209,431
Amortization of amount on deferred amount on refunding	(63,121)
Change in net position of governmental activities	\$ 200,894

Armada Area Schools
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2019

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash	\$ 85,791	\$ 407,938
Liabilities		
Due to other funds	\$ -	\$ 294
Due to agency fund activities	<u>-</u>	<u>407,644</u>
Total liabilities	<u>-</u>	<u>\$ 407,938</u>
Net Position		
Assets held for other scholarships	<u>\$ 85,791</u>	

See Accompanying Notes to the Financial Statements

Armada Area Schools
Fiduciary Funds
Private Purpose Trust Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2019

	Private Purpose Trust Funds
Additions	
Local sources	\$ 50
Interest and investment earnings	<u>17</u>
Total additions	67
Deductions	
Scholarships	<u>4,001</u>
Change in net position	(3,934)
Net position - beginning	<u>89,725</u>
Net position - ending	<u>\$ 85,791</u>

See Accompanying Notes to the Financial Statements

Armada Area Schools
Notes to the Financial Statements
June 30, 2019

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

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

District-wide Financial Statements

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

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

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

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

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

Fund Financial Statements

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

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

Armada Area Schools
Notes to the Financial Statements
June 30, 2019

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 government.

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

The School District reports the following major governmental funds:

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

Tech Bond Fund– These funds are used for the purpose of erecting, furnishing and equipping additions to and remodeling, re-furnishing and re-equipping school buildings; acquiring and installing education technology improvements; acquiring school buses/acquiring land for site purposes; developing and improving sites; and to pay the cost of issuing the Bonds.

2018 Building & Site Fund – This Capital Project Fund is used for the purpose of capital improvements including erecting, furnishing and equipping additions to and remodeling, re-furnishing and re-equipping school buildings; acquiring and installing education technology improvements; acquiring school buses/acquiring land for site purposes; developing and improving sites; and to pay the cost of issuing the Bonds; and to pay the cost of issuing the Bonds.

Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt. The major debt service funds include the 2005 Bond.

Additionally, the School District reports the following fund types:

Capital Projects Funds –Sinking Funds are used to record the sinking fund property tax levy and other revenue and the disbursement of invoices specifically for acquiring new school sites, construction, additions, or major replacements to school buildings.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include Food Service and Community Education Funds. Operating deficits generated by these activities are generally covered by a transfer from the General Fund.

Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt. The debt service funds include the 2007, 2012, 2014, 2015 and 2017 Series A refunding issue and 2016 Bond.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Trust Funds are funds entrusted to the School District for scholarship awards and the principal and interest of the trust may be spent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Armada Area Schools
Notes to the Financial Statements
June 30, 2019

Assets, Liabilities and Equity

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

The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2019, the rates are as follows per \$ 1,000 of assessed value.

General Fund	
Non-principal residence exemption	18.0000
Commercial personal property	6.0000
Debt Service Funds	7.0000
Sinking Fund	0.8394

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. All of the School District's tax roll lies within the Counties of Macomb and St. Clair.

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

Investments – Investments are stated at fair value. Certificates of deposit are stated at cost which approximates fair value.

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

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their acquisition value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$ 5,000. The School District defines building and site capital betterments as expenditures in excess of \$ 20,000 that extend the useful life of the capital asset at least five years. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. The School District does not depreciate capital assets in the year of acquisition. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Equipment and furniture	5-10 years
Buses and other vehicles	5-10 years

Armada Area Schools
Notes to the Financial Statements
June 30, 2019

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

Compensated Absences – Sick days are earned by eligible employees at the rate depending on their classification. Certain classifications of employees may accumulate unused sick days up to a maximum amount, determined by their job classification. Retiring employees of certain job classifications, who meet certain age and years of service requirements are paid for accumulated sick days to a maximum number of days at a rate determined by their job category. There is no contractual provision for payment of unused vacation. They may be used for vacation only.

The liability for compensated absences reported in the district-wide financial statements consist of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments, and other employees who are expected to become eligible in the future to receive such payments

upon termination, are included. The amount reported is salary related and includes no fringe benefits, since the amount of said benefits would be immaterial.

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

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

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

Postemployment Benefits Other Than Pensions – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been

Armada Area Schools
Notes to the Financial Statements
June 30, 2019

determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

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

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

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

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Education. The Board of Education has granted the Superintendent the authority to assign funds. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

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

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

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

Use of Estimates

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

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the

Armada Area Schools
Notes to the Financial Statements
June 30, 2019

"grossing up" effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards

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

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

Upcoming Accounting and Reporting Changes

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four

fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

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

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

Armada Area Schools
Notes to the Financial Statements
June 30, 2019

using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

Statement No. 90, *Majority Equity Interests* improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain components. This statement is effective for the year ending June 30, 2020.

Statement No. 91, *Conduit Debt Obligations* provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This statement is effective for the year ending June 30, 2022.

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

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

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

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. The Act requires expenditures to be budgeted on a functional basis. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the Act if reasonable procedures are in use by the School District to detect violations.

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

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations.

Excess of Expenditures over Appropriations

The School District did not have significant expenditure budget variances.

Compliance – Bond Proceeds

The Capital Projects Funds includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, management believes the School District has complied, in all material respects, with the applicable provisions of Section 1351a of the Revised School Code. The following is a summary of the revenue and expenditures in the Tech Bond and 2018 Building and Site Bond from the inception of the funds through the current fiscal year:

	Tech Bond	2018 Building & Site Bond
Revenues	\$ 4,328,418	\$ 6,699,116
Expenditures	2,799,338	5,971,215

Armada Area Schools
Notes to the Financial Statements
June 30, 2019

Compliance Sinking Funds

The Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, management believes the School District has complied, in all material respects, with the applicable provisions of § 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 2004-4.

Note 3 - Deposits and Investments

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 4,679,310	\$ 493,729	\$ 5,173,039

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 589,062
Investments in securities, mutual funds, and similar vehicles	4,583,182
Petty cash and cash on hand	795
Total	\$ 5,173,039

Interest rate risk – The School District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan

associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

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

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year end, \$ 5,153,141 of the School District's bank balance of \$ 5,461,817 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

Note 4 - Fair Value Measurements

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

Armada Area Schools
Notes to the Financial Statements
June 30, 2019

The School District has the following recurring fair value measurements as of June 30, 2019:

Investment	Fair Value	Maturities	Rating	Rating Organization
Michigan Liquid Asset Fund	<u>\$ 4,583,182</u>	6 mos. Avg.	AAAm	S & P

• Amounts invested in MILAF + Portfolio of \$ 4,583,182. The MILAF + Portfolio is not registered under Rule 2a-7 under the Investment Company Act of 1940. The money market securities are valued using amortized cost, which generally approximates the current fair value of the security. However, the value is not obtained from a quoted price in an active market. (Level 2 inputs)

Note 5 - Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,187,079	\$ -	\$ -	\$ 1,187,079
Construction in progress	-	682,286	-	682,286
Total capital assets not being depreciated	<u>1,187,079</u>	<u>682,286</u>	<u>-</u>	<u>1,869,365</u>
Capital assets being depreciated				
Buildings and additions	49,816,209	2,945,818	531,027	52,231,000
Land Improvements	2,474,540	1,084,574	-	3,559,114
Equipment and furniture	11,522,294	469,827	-	11,992,121
Buses and other vehicles	1,670,391	169,868	136,350	1,703,909
Total capital assets being depreciated	<u>65,483,434</u>	<u>4,670,087</u>	<u>667,377</u>	<u>69,486,144</u>
Less accumulated depreciation for				
Buildings and additions	17,155,297	973,268	531,027	17,597,538
Land Improvements	1,308,404	74,789	-	1,383,193
Equipment and furniture	10,277,242	532,706	-	10,809,948
Buses and other vehicles	1,031,947	95,662	129,533	998,076
Total accumulated depreciation	<u>29,772,890</u>	<u>1,676,425</u>	<u>660,560</u>	<u>30,788,755</u>
Net capital assets being depreciated	<u>35,710,544</u>	<u>2,993,662</u>	<u>6,817</u>	<u>38,697,389</u>
Net capital assets	<u>\$ 36,897,623</u>	<u>\$ 3,675,948</u>	<u>\$ 6,817</u>	<u>\$ 40,566,754</u>

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Depreciation expense was charged to activities of the School District as follows:

Governmental Activities	
Instruction	\$ 979,685
Support services	641,436
Food services	33,188
Community services	<u>22,116</u>
 Total governmental activities	 <u>\$ 1,676,425</u>

Note 6 - Interfund Receivable and Payable and Transfers

Individual interfund receivable and payable balances at year end were:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Funds	\$ 164,298
Nonmajor Funds	General Fund	78,440
General Fund	Fiduciary Fund	294
General Fund	Tech Bond Fund	<u>704</u>
		 <u>\$ 243,736</u>

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

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

Interfund transfers were made during the year, between the General Fund and the Food Service Fund totaling \$ 3,470 and between the Debt Service Funds totaling \$ 484,445. These transfers were made to cover the costs of the District's programs that were in excess of revenues generated from those activities and to make debt payments.

Note 7 - Unearned Revenue

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

	Unearned
Grant and categorical aid payments received prior to meeting all eligibility requirements	\$ 17,956
Tuition	19,631
Other	<u>31,942</u>
Total	<u>\$ 69,529</u>

Note 8 - Leases

Operating Leases

The School District leases copiers with noncancelable operating leases. Total costs for such leases were \$ 1,059 for the year. During the year one copier lease was paid off. The future minimum lease payments for these leases are as follows:

Year ending June 30, 2020	<u>\$ 1,054</u>
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Note 9 - State Aid Anticipation Note

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th. The School District is required to pledge 100% of their state school aid, October through August, or until the note is repaid, whichever is longer. The State has discretion to accelerate repayment terms if they have cause for concern. If the note is in default status, there is a penalty interest rate that may apply.

Armada Area Schools
Notes to the Financial Statements
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Short-term debt activity for the year was as follows:

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	\$ 1,442,121	\$ 1,500,000	\$ 2,652,834	\$ 289,287

The state aid anticipation note agreement includes an irrevocable set-aside of \$ 1,210,713 at year end that is considered defeased debt and not included in the ending balance.

Note 10 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. The State can withhold state aid if it has to make a bond payment on behalf of the School District related to qualified bonds. For the School Bond Loan Fund or School Loan Revolving Fund, the State may withhold state aid if the School District is in default, or apply late charges in an instance of default or fails to appropriately levy debt mills. Other long-term obligations include compensated absences and capital leases.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Government obligation bonds	\$ 44,490,000	\$ -	\$ 5,400,000	\$ 39,090,000	\$ 5,590,000
Unamortized bond premium	1,884,018	-	209,431	1,674,587	-
School Bond Loan	-	3,695,023	-	3,695,023	-
Accreted Interest- SBLF	-	28,922	-	28,922	-
Bus capital lease	140,070	-	71,702	68,368	33,598
Compensated absences	44,776	13,500	20,399	37,877	12,000
Total	\$ 46,558,864	\$ 3,737,445	\$ 5,701,532	\$ 44,594,777	\$ 5,635,598

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

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

\$ 11,570,000 refunding serial bonds, issued June 2014, due in annual installments of \$ 820,000 to \$ 1,350,000 through May 1, 2024; interest at 4.00% to 5.00%	\$ 7,970,000
\$ 3,750,000 refunding serial bonds, issued February 2015, due in annual installments of \$ 705,000 to \$ 780,000 through May 1, 2022; interest at 2.00% to 5.00%	2,295,000
\$ 4,100,000 technology bonds, issued March 2016, due in annual installments of \$ 300,000 to \$ 700,000 through May 1, 2023; interest at 2.10%	2,690,000
\$ 6,925,000 refunding serial bonds, issued March 2017, due in annual installments of \$ 45,000 to \$ 1,630,000 through May 1, 2030; interest at 2.00% - 3.00%	6,925,000
\$ 15,815,000 refunding serial bonds, issued May 2017, due in annual installments of \$ 2,905,000 to \$ 3,885,000 through May 1, 2030; interest at 1.810% to 3.036%	12,910,000
\$ 6,490,000 building & site bonds, issued May 2018, due in annual installments of \$ 250,000 to \$ 1,110,000 through May 1, 2032; interest at 3.00% to 5.00%	<u>6,300,000</u>
Total general obligation bonded debt	<u><u>\$ 39,090,000</u></u>

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

Year Ending June 30,	Bonds		
	Principal	Interest	Total
2020	\$ 5,590,000	\$ 1,302,920	\$ 6,892,920
2021	5,760,000	1,131,680	6,891,680
2022	5,950,000	943,028	6,893,028
2023	6,115,000	776,498	6,891,498
2024	1,710,000	585,650	2,295,650
2025 - 2029	9,610,000	1,847,550	11,457,550
2030 - 2033	<u>4,355,000</u>	<u>247,150</u>	<u>4,602,150</u>
Total	<u><u>\$ 39,090,000</u></u>	<u><u>\$ 6,834,476</u></u>	<u><u>\$ 45,924,476</u></u>

The general obligation bonds are payable from the Debt Service Funds. As of year end, the fund had a fund balance of \$ 83,101 to pay this debt. Future debt and interest will be payable from future tax levies.

School Bus Installments

School bus installment purchase payable consist of the following:

Date	Original Amount	Due Date	Interest Rate
June 30, 2017	\$ 168,189	June 30, 2021	3.49%

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Future principal and interest requirements are as follows:

Year ending June 30,	Principal	Interest	Total
2020	\$ 33,598	\$ 2,386	\$ 35,984
2021	34,770	1,214	35,984
Total	\$ 68,368	\$ 3,600	\$ 71,968

The assets acquired through capital leases are as follows:

<u>Assets</u>	
Buses	\$ 1,703,909
Less accumulated depreciation	<u>998,076</u>
Total	\$ <u>705,833</u>

State School Bond Loan

The State School Bond Loan consists of a borrowing agreement with the State of Michigan for the purpose of meeting the financing of current debt maturities on the School District's 2005-2018 bond issues. During 2005-2018, the School District issued \$ 48,650,000 million in bonds to renovate School District facilities. The bond election, as passed by the voters, specified that the School District debt millage would not exceed the pre-bond vote millage of 7.5 mills, but instead the election permitted the School District to extend this levy through the year 2025. Since the monies generated by the 7.5 mills are presently not sufficient to cover the entire debt service requirements of the School District, it has been necessary for the School District to borrow a total of \$ 3,695,023 to meet debt service requirements. Management of the School District anticipates that as the other bonds mature, the revenues provided by the debt millage will be sufficient to satisfy the future debt service requirements of the 2005-2018 bonds and all necessary borrowing from the State School Bond Loan Fund. During the year, the School District borrowed \$ 3,695,023 and had an

outstanding balance at year-end of \$ 3,695,023, from the State School Bond Loan Fund. The School District has agreed to repay the loan amount with interest at rates and at times to be determined by the State Treasurer.

Compensated Absences

Accrued compensated absences at year end, consist of \$ 37,877 in accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Deferred Amount on Refunding

The District had advanced refundings whose differences resulted in deferred outflows of resources of \$ 495,580 and \$ 562,775, respectively, and are also being charged to activities through fiscal year 2030. The total net deferred amount on refunding is \$ 629,664, which is reported on the statement of net position as a deferred outflow of resources.

Defeased Debt

In prior years, the School District has defeased various bonds issued by creating separate irrevocable trust funds. New debt has been issued and the net proceeds of each refunding were placed in separate special escrow accounts and invested in securities of the U.S. Government and its agencies. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded bonds are considered to be defeased. Accordingly, the trust account assets and liability for the defeased bonds are not included in the School District's financial statements.

The final payment date is May 1, 2022 for the 1997 issue for the partial refunding that occurred in 2005. During 2013, a portion of the 2005 bonds were refunded. During 2015, the 2005 Refunding debt

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was refunding. Final payment for these refunded bonds is May 1, 2026. During 2017, the 2007 debt was refunded. Final payment for these refunded bonds is May 2030.

As of year end, the amount of defeased debt outstanding but removed from the School District's financial statements is as follows:

2005 Building and Site refunded in 2014	<u>\$ 9,860,000</u>
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Interest expenditures for the fiscal year in the General Fund and Debt Service Funds were \$ 4,775 and \$ 1,672,025, respectively.

Note 11 - Risk Management

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

The District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District. The District had no unemployment compensation expense for the year ended June 30, 2019. No provision has been made for possible future claims.

Note 12 - Pension Plan

Plan Description

The Michigan Public School Employees' Retirement System (System or MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of

Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members— eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

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

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

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

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Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Contributions

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

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

September 30, 2017 valuation will be amortized over a 20-year period for the 2017 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2018.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	17.89%
Member Investment Plan	3.0 - 7.0%	17.89%
Pension Plus	3.0 - 6.4%	16.61%
Pension Plus 2	6.2%	19.74%
Defined Contribution	0.0%	13.54%

Required contributions to the pension plan from the School District were \$ 2,848,286 for the year ending September 30, 2018.

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

At June 30, 2019, the School District reported a liability of \$ 31,444,711 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2017. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2018, the School District's

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proportion was .1046 percent, which was a decrease of .0001 percent from its proportion measured as of September 30, 2017. At September 30, 2018, the total pension expense for the School District was \$ 3,703,303. For the year ending June 30, 2019, the School District recognized pension expense of \$ 2,769,638.

At June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Difference between expected and actual experience	\$ 145,909	\$ (228,503)	\$ (82,594)
Changes of assumptions	7,282,569	-	7,282,569
Net difference between projected and actual earnings on pension plan investments	-	(2,150,019)	(2,150,019)
Changes in proportion and differences between the School District contributions and proportionate share of contributions	<u>84,689</u>	<u>(274,892)</u>	<u>(190,203)</u>
Total to be recognized in future	7,513,167	(2,653,414)	4,859,753
School District contributions subsequent to the measurement date	<u>2,509,354</u>	<u>(1,155,764)</u>	<u>1,353,590</u>
Total	<u>\$ 10,022,521</u>	<u>\$ (3,809,178)</u>	<u>\$ 6,213,343</u>

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future Pension Expenses)		
2019	\$	1,888,698
2020		1,517,534
2021		1,033,117
2022		<u>420,404</u>
	<u>\$</u>	<u>4,859,753</u>

Actuarial Assumptions

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

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Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2017
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 2.75%
- Investment Rate of Return:
 - MIP and Basic Plans 7.05%
 - Pension Plus Plan 7.00%
 - Pension Plus 2 Plan: 6.00%
- Projected Salary Increases: 2.75 – 11.55%, including wage inflation at 2.75%
- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- Mortality:
 - Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
 - Active Members: Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.5304

Recognition period for assets in years is 5.0000

Full actuarial assumptions are available in the 2018 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.7 %
Alternative Investment Pools	18.0	9.2
International Equity	16.0	7.2
Fixed Income Pools	10.5	5.0
Real Estate and Infrastructure Pools	10.0	3.9
Absolute Return Pools	15.5	5.2
Short Term Investment Pools	2.0	0.0
	<u>100.0%</u>	

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

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Rate of Return

For the fiscal year ended September 30, 2018, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 11.11%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.05% was used to measure the total pension liability (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 7.05% (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.05% (7.0% for the Hybrid Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease (Non-Hybrid/Hybrid)*	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)*	1% Increase (Non-Hybrid/Hybrid)*
6.05% / 6.0% / 5.0%	7.05% / 7.0% / 6.0%	8.05% / 8.0% / 7.0%
<u>\$ 41,284,477</u>	<u>\$ 31,444,711</u>	<u>\$ 23,269,465</u>

**Discount rates listed in the following order: Basic and Member Investment Plan (MIP), Pension Plus, and Pension Plus 2.*

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

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

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

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

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

Plan Description

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

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

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

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

Benefits Provided

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was

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

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

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are

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automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

Contributions

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

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

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2018.

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.0%	6.44%
Personal Healthcare Fund (PHF)	0.0%	6.13%

Required contributions to the OPEB plan from the School District were \$ 680,728 for the year ended September 30, 2018.

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

At June 30, 2019, the School District reported a liability of \$ 8,336,313 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2017. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2018, the School District's proportion was .1046 percent, which was unchanged from its proportion measured as of September 30, 2017. At September 30, 2018, the total OPEB expense for the School District was \$ 619,550. For the year ending June 30, 2019, the School District recognized total OPEB expense of \$ 716,328.

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June 30, 2019

At June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Difference between expected and actual experience	\$ -	\$ (1,551,602)	\$ (1,551,602)
Changes of assumptions	882,820	-	882,820
Net difference between projected and actual earnings on OPEB plan investments	-	(320,384)	(320,384)
Changes in proportion and differences between the School District contributions and proportionate share of contributions	23,501	(2,220)	21,281
Total to be recognized in future	906,321	(1,874,206)	(967,885)
School District contributions subsequent to the measurement date	601,849	-	601,849
Total	\$ 1,508,170	\$ (1,874,206)	\$ (366,036)

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future OPEB Expenses)	
2019	\$ (239,617)
2020	(239,617)
2021	(239,617)
2022	(174,320)
2023	(74,714)
	\$ (967,885)

Actuarial Assumptions

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

Armada Area Schools
Notes to the Financial Statements
June 30, 2019

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2017
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 2.75%
- Investment Rate of Return: 7.15%
- Projected Salary Increases: 2.75 – 11.55%, including wage inflation of 2.75%
- Healthcare Cost Trend Rate: 7.5% Year 1 graded to 3.0% Year 12
- Mortality:
 - Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
 - Active Members: Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Other Assumptions:

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

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the

annual pension valuations beginning with the September 30, 2017 valuation. The total OPEB liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.6018.

Recognition period for assets in years is 5.0000

Full actuarial assumptions are available in the 2018 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Armada Area Schools
Notes to the Financial Statements
June 30, 2019

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.7 %
Alternative Investment Pools	18.0	9.2
International Equity	16.0	7.2
Fixed Income Pools	10.5	0.5
Real Estate and Infrastructure Pools	10.0	3.9
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	2.0	0.0
	<u>100.0%</u>	

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

Rate of Return

For the fiscal year ended September 30, 2018, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 10.75%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.15% 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 7.15%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 7.15%, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease 6.15%	Current Discount Rate 7.15%	1% Increase 8.15%
\$ 10,007,574	\$ 8,336,313	\$ 6,930,578

Armada Area Schools
Notes to the Financial Statements
June 30, 2019

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

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

1% Decrease 6.15%	Current Healthcare Cost Trend Rate 7.15%	1% Increase 8.15%
\$ 6,856,526	\$ 8,336,313	\$ 10,033,931

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2018 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan

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

Note 14 - Tax Abatements

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

For the fiscal year ended June 30, 2019, the School District's property tax revenues were not reduced by any amounts under these programs.

There are no significant abatements made by the School District.

Note 15 - Contingent Liabilities

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

REQUIRED SUPPLEMENTARY INFORMATION

Armada Area Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2019

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Revenues				
Local sources	\$ 3,761,000	\$ 3,712,000	\$ 3,328,362	\$ (383,638)
State sources	13,245,000	13,119,000	13,255,957	136,957
Federal sources	469,000	448,000	442,845	(5,155)
Interdistrict sources	-	-	267,573	267,573
	<u>17,475,000</u>	<u>17,279,000</u>	<u>17,294,737</u>	<u>15,737</u>
Total revenues				
Expenditures				
Instruction				
Basic programs	8,816,974	8,694,261	8,677,657	(16,604)
Added needs	1,551,558	1,718,000	1,614,435	(103,565)
Supporting services				
Pupil	971,505	971,505	963,901	(7,604)
Instructional staff	769,634	769,634	676,922	(92,712)
General administration	517,100	517,100	462,089	(55,011)
School administration	1,340,065	1,340,065	1,288,921	(51,144)
Business	707,337	707,337	672,546	(34,791)
Operations and maintenance	1,396,386	1,396,386	1,363,384	(33,002)
Pupil transportation services	770,915	770,915	714,312	(56,603)
Central	250,613	250,613	244,996	(5,617)
Athletic activities	345,729	390,000	351,547	(38,453)
Community services	179,123	179,123	178,810	(313)
Capital outlay	121,935	126,935	126,440	(495)
Debt service				
Principal	71,702	71,702	71,702	-
Interest and fiscal charges	4,775	4,775	4,775	-
	<u>17,815,351</u>	<u>17,908,351</u>	<u>17,412,437</u>	<u>(495,914)</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	<u>(340,351)</u>	<u>(629,351)</u>	<u>(117,700)</u>	<u>511,651</u>

Armada Area Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2019

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Other Financing Sources (Uses)				
Transfers out	\$ (9,649)	\$ (9,649)	\$ (3,470)	\$ 6,179
Net change in fund balance	(350,000)	(639,000)	(121,170)	517,830
Fund balance - beginning	<u>1,705,729</u>	<u>1,705,729</u>	<u>1,705,729</u>	<u>-</u>
Fund balance - ending	<u>\$ 1,355,729</u>	<u>\$ 1,066,729</u>	<u>\$ 1,584,559</u>	<u>\$ 517,830</u>

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
A. Reporting unit's proportion of net pension liability (%)	0.10%	0.10%	0.11%	0.10%	0.11%					
B. Reporting unit's proportionate share of net pension liability	\$ 31,444,711	\$ 27,131,837	\$ 26,210,832	\$ 25,441,198	\$ 24,055,419					
C. Reporting unit's covered-employee payroll	\$ 8,906,340	\$ 8,713,411	\$ 8,887,203	\$ 8,555,666	\$ 9,440,221					
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	353.06%	311.38%	294.93%	297.36%	254.82%					
E. Plan fiduciary net position as a percentage of total pension liability	62.36%	64.21%	63.27%	63.17%	66.20%					

Notes:

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2018.
Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2018.

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

		For the Years Ended June 30,									
		2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
A.	Statutorily required contributions	\$ 2,769,638	\$ 2,648,039	\$ 2,359,107	\$ 2,009,389	\$ 1,870,100					
B.	Contributions in relation to statutorily required contributions	<u>2,769,638</u>	<u>2,648,039</u>	<u>2,359,107</u>	<u>2,009,389</u>	<u>1,870,100</u>					
C.	Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>					
D.	Reporting unit's covered- employee payroll	\$ 9,109,934	\$ 8,871,582	\$ 9,012,744	\$ 8,857,974	\$ 8,950,264					
E.	Contributions as a percentage of covered-employee payroll	30.40%	29.85%	26.18%	22.68%	20.89%					

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
A. Reporting unit's proportion of net OPEB liability (%)	0.10%	0.10%								
B. Reporting unit's proportionate share of net OPEB liability	\$ 8,336,313	\$9,260,024								
C. Reporting unit's covered-employee payroll	\$ 8,906,340	\$8,713,411								
D. Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	93.60%	106.27%								
E. Plan fiduciary net position as a percentage of total OPEB liability	42.95%	36.39%								

Notes:

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2018.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2018.

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

		For the Years Ended June 30									
		2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
A.	Statutorily required contributions	\$ 716,328	\$ 625,048								
B.	Contributions in relation to statutorily required contributions	<u>716,328</u>	<u>625,048</u>								
C.	Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>								
D.	Reporting unit's covered- employee payroll	\$9,109,934	\$8,871,582								
E.	Contributions as a percentage of covered-employee payroll	7.86%	7.05%								

OTHER SUPPLEMENTARY INFORMATION

**Armada Area Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2019**

	Special Revenue Funds		Debt Service Funds					Capital Projects Fund	Total Nonmajor Governmental Funds	
	Community Education	Food Service	2007 Refunding	2014 Refunding	2015 Refunding	2016 Bond	2017 Series A	2017 Series B	Sinking Fund	
Assets										
Cash	\$ 31,235	\$ 51,018	\$ 917	\$ 33,475	\$ 21,239	\$ 17,778	\$ 6,996	\$ 125	\$ 542,967	\$ 705,750
Accounts receivable	-	1,796	-	-	-	-	-	-	-	1,796
Due from other funds	-	-	-	-	-	-	-	-	78,440	78,440
Total assets	\$ 31,235	\$ 52,814	\$ 917	\$ 33,475	\$ 21,239	\$ 17,778	\$ 6,996	\$ 125	\$ 621,407	\$ 785,986
Liabilities and Fund Balance										
Liabilities										
Accounts payable	\$ 2,319	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 120,617	\$ 122,936
Due to other funds	3,150	46,819	-	-	-	-	-	-	114,329	164,298
Unearned revenue	1,480	-	-	-	-	-	-	-	-	1,480
Total liabilities	6,949	46,819	-	-	-	-	-	-	234,946	288,714
Fund Balance										
Restricted for:										
Debt service	-	-	917	33,475	21,239	17,778	6,996	125	-	80,530
Capital projects	-	-	-	-	-	-	-	-	386,461	386,461
Food service	-	5,995	-	-	-	-	-	-	-	5,995
Assigned for:										
Community education	24,286	-	-	-	-	-	-	-	-	24,286
Total fund balance	24,286	5,995	917	33,475	21,239	17,778	6,996	125	386,461	497,272
Total liabilities and fund balance	\$ 31,235	\$ 52,814	\$ 917	\$ 33,475	\$ 21,239	\$ 17,778	\$ 6,996	\$ 125	\$ 621,407	\$ 785,986

Armada Area Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2019

	Special Revenue Funds		Debt Service Funds					Capital Projects Fund	Total Nonmajor Governmental Funds	
	Community Education	Food Service	2007 Refunding	2014 Refunding	2015 Refunding	2016 Bond	2017 Series A	2017 Series B	Sinking Fund	
Revenues										
Local sources	\$ 54,743	\$ 182,846	\$ 24	\$ 1,385,409	\$ 911,754	\$ 700,730	\$ 285,300	\$ 3	\$ 413,076	\$ 3,933,885
State sources	-	9,687	-	-	-	-	-	-	-	9,687
Federal sources	-	152,948	-	-	-	-	-	-	-	152,948
Total revenues	54,743	345,481	24	1,385,409	911,754	700,730	285,300	3	413,076	4,096,520
Expenditures										
Current										
Education										
Food services	-	348,658	-	-	-	-	-	-	-	348,658
Community services	53,525	-	-	-	-	-	-	-	-	53,525
Capital outlay	-	-	-	-	-	-	-	-	839,927	839,927
Debt service										
Principal	-	-	190,000	955,000	750,000	600,000	-	-	-	2,495,000
Interest and other expenditures	-	-	239,965	565,974	129,365	69,600	274,355	-	-	1,279,259
Total expenditures	53,525	348,658	429,965	1,520,974	879,365	669,600	274,355	-	839,927	5,016,369
Excess (deficiency) of revenues over expenditures	1,218	(3,177)	(429,941)	(135,565)	32,389	31,130	10,945	3	(426,851)	(919,849)
Other Financing Sources (Uses)										
Proceeds from school bond loan fund	-	-	142,793	538,407	-	-	-	-	-	681,200
Transfers in	-	3,470	288,065	-	-	-	-	-	-	291,535
Transfers out	-	-	-	(401,120)	(29,029)	(25,597)	(28,699)	-	-	(484,445)
Total other financing sources	-	3,470	430,858	137,287	(29,029)	(25,597)	(28,699)	-	-	488,290
Net change in fund balance	1,218	293	917	1,722	3,360	5,533	(17,754)	3	(426,851)	(431,559)
Fund balance - beginning	23,068	5,702	-	31,753	17,879	12,245	24,750	122	813,312	928,831
Fund balance - ending	\$ 24,286	\$ 5,995	\$ 917	\$ 33,475	\$ 21,239	\$ 17,778	\$ 6,996	\$ 125	\$ 386,461	\$ 497,272

Armada Area Schools
Other Supplementary Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2019

	Due to (From) Student Groups June 30, 2018	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2019
<u>Elementary Activity Funds</u>				
First Grade Field Trip	\$ 149	\$ 3,479	\$ 3,416	\$ 212
Kindergarten Field Trip	434	4,052	3,920	566
Second Grade Field Trip	501	378	205	674
Book Club	9	-	-	9
Book Fair / Accelerated Readers	2,064	12,836	10,516	4,384
Drug Alliance	13,756	25,373	25,462	13,667
Elementary Miscellaneous	5,450	8,902	10,500	3,852
Fifth Grade Field Trip	428	6,311	5,961	778
Fourth Grade Field Trip	309	6,079	5,439	949
Garden Club	2,806	1,234	514	3,526
Grants	325	-	-	325
Individual Room Account	1,004	1,109	1,098	1,015
Later Elementary Internal Reserve Fund	1,048	18,308	2,965	16,391
Library Donations	70	1,700	1,335	435
Miscellaneous	2,165	1,975	806	3,334
Robotics Program	2,165	1,000	1,587	1,578
Safety Patrol	1,532	5,429	5,468	1,493
Ski Club	1,348	-	-	1,348
Student Council	19	504	284	239
Student Enhancement	8,110	1,200	1,000	8,310
Super Kids Day	4,174	8,217	7,349	5,042
Technology	1,160	-	-	1,160
Technology Club	92	-	-	92
Third Grade Field Trip	1,943	3,204	3,938	1,209
Yearbook	10,091	416	600	9,907
	<u>61,152</u>	<u>111,706</u>	<u>92,363</u>	<u>80,495</u>

Armada Area Schools
Other Supplementary Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2019

	Due to (From) Student Groups June 30, 2018	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2019
<u>Middle School Activity Funds</u>				
Art	473	-	-	473
Band	419	13,315	12,454	1,280
Cedar Point	4,918	6,086	6,717	4,287
Choir	2,305	991	961	2,335
Digital Media Arts	220	205	23	402
Eighth Grade	726	1,210	1,498	438
Foreign Language	237	-	-	237
Language Arts	336	-	-	336
Library	5,442	2,363	2,345	5,460
Math	706	217	14	909
Middle School	22,175	16,917	13,697	25,395
Middle School Internal Reserve Fund	1,078	34	-	1,112
Middle School L.C.C.E.	267	-	-	267
Middle School Robotics Program	1,000	9,822	5,839	4,983
Middle School Tech Lab	714	-	-	714
National JR Honor Society	596	330	495	431
Physical Education	733	1,230	986	977
SCADDS	217	-	-	217
Science	749	759	679	829
Seventh Grade	1,210	3,479	3,855	834
Sixth Grade	604	2,975	3,286	293
Social Studies	352	-	-	352
Student Council	2,390	852	1,260	1,982
Yearbook	10,049	1,759	2,108	9,700
	<u>57,916</u>	<u>62,544</u>	<u>56,217</u>	<u>64,243</u>

Armada Area Schools
Other Supplementary Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2019

	Due to (From) Student Groups June 30, 2018	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2019
<u>High School Activity Funds</u>				
A.H.S. Senior Night	6,156	53,208	57,955	1,409
AP Exams	6,726	25,826	23,166	9,386
Athletics Activity	4,222	14,169	14,446	3,945
Auto Shop	98	-	-	98
Band	2,912	837	2,473	1,276
Boys Basketball	8,508	17,295	17,031	8,772
Boys Golf	39	-	13	26
Building Trades	1,118	27,925	21,218	7,825
Cheerleaders	4,696	30,671	33,874	1,493
Choir	4,437	7,262	4,987	6,712
Class of 2005	25	-	-	25
Class of 2006	1,056	-	-	1,056
Class of 2007	215	-	-	215
Class of 2008	-	-	-	-
Class of 2009	2,177	-	-	2,177
Class of 2010	2,985	-	-	2,985
Class of 2011	325	-	-	325
Class of 2012	2,257	-	-	2,257
Class of 2013	1,005	-	-	1,005
Class of 2014	3,081	-	-	3,081
Class of 2015	4,092	-	-	4,092
Class of 2016	1,169	-	-	1,169
Class of 2017	1,339	-	-	1,339
Class of 2018	2,197	1,500	-	3,697
Class of 2019	1,199	3,775	3,829	1,145
Class of 2020	1,380	-	185	1,195
Class of 2021	966	-	-	966
Class of 2022	-	726	-	726
Counseling	8,735	6,735	10,554	4,916
Culinary	-	175	57	118
Dance Club	602	-	-	602
Equestrian Team	6 - 5	61	-	61

Armada Area Schools
Other Supplementary Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2019

	Due to (From) Student Groups June 30, 2018	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2019
General Science	611	20	-	631
Girls Basketball	6,608	21,952	25,434	3,126
Girls Softball	428	-	100	328
Girls Varsity Soccer	662	1,613	1,426	849
Girls Varsity Tennis	41	865	769	137
Golf	198	85	281	2
Graduation DVD's	1,976	-	1,381	595
Grandma's Scholarship	300	-	-	300
Greenhouse	87	-	-	87
Health Occupations	107	9,951	10,045	13
Heide/O'Leary Scholarship	75	-	-	75
High School Internal Reserve Funds	12,997	11,789	15,214	9,572
High School Miscellaneous	58	3,104	3,000	162
High School Online Tutoring	6,524	3,100	2,975	6,649
High School Powerlifting	74	-	-	74
JV Baseball	72	-	52	20
JV Volleyball	1,121	10,997	10,053	2,065
Keys to Success Fundraiser	-	8,500	7,000	1,500
L.C.C.E.	104	-	-	104
Library	275	500	49	726
Luke Hurd Memorial Scholarship	1,000	2,000	2,000	1,000
Math	232	-	-	232
Middle School Basketball	88	720	620	188
Middle School Cheer	53	11,731	10,474	1,310
Middle School Wrestling	118	2,551	2,106	563
Middle School Volleyball	428	1,913	1,256	1,085
Miscellaneous Grants	400	1,000	-	1,400
Miscellaneous Scholarship	24,450	22,655	31,976	15,129
Musical	20,483	54,549	58,415	16,617
National Honor Society	2,937	2,376	4,533	780
Neely Scholarship	8,502	9,500	8,500	9,502
Conservatory	711	8,774	9,156	329

Armada Area Schools
Other Supplementary Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2019

	Due to (From) Student Groups June 30, 2018	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2019
Kuzminski Scholarship Fund	500	500	500	500
Spelling Bee	363	-	-	363
Powder Puff Football	1,977	1,965	2,614	1,328
Prom	4,223	17,088	20,574	737
Regit	8,435	19,414	20,082	7,767
Renewable Energy	98	13	111	-
S.A.D.D.	141	-	-	141
Soccer	726	355	392	689
Spanish Club	1	-	-	1
Special Education Field Day	-	639	267	372
Student Senate	9,721	11,707	12,515	8,913
Technology	3,453	6,960	1,966	8,447
The Tiger Den	504	15,955	15,845	614
Track	13,013	18,405	25,159	6,259
Trap Team	6,755	1,089	7,106	738
Varsity Baseball	2,350	10,527	9,026	3,851
Varsity Boy Tennis	2,031	1,170	1,832	1,369
Varsity Football	18,645	37,549	33,663	22,531
Wrestling	2,365	4,288	4,854	1,799
	<u>240,799</u>	<u>527,973</u>	<u>553,109</u>	<u>215,663</u>

Armada Area Schools
Other Supplementary Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2019

	Due to (From) Student Groups June 30, 2018	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2019
<u>Auxiliary Services Fund</u>				
Auxiliary Internal Reserve Fund	81	2		83
Child Care	56	902	868	90
Preschool	3,887	5,483	4,556	4,814
	<u>4,024</u>	<u>6,387</u>	<u>5,424</u>	<u>4,987</u>
<u>Burk Street Activity Funds</u>				
A.P.P.L.E.	223	425	433	215
Benefit for Books	121	-	-	121
Burk St. Internal Reserve Fund	134	18	-	152
G Winne Scholarship	1,725	-	500	1,225
Miscellaneous Dinner	4	-	-	4
Miscellaneous	1,880	304	-	2,184
Parking Lot Maintenance	11,963	3,987	-	15,950
Program Development	69	-	-	69
Project Care	9,951	2,719	3,635	9,035
Special Services	221	-	-	221
Vending Machine	6,440	3,647	5,398	4,689
	<u>32,731</u>	<u>11,100</u>	<u>9,966</u>	<u>33,865</u>

Armada Area Schools
Other Supplementary Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2019

	Due to (From) Student Groups June 30, 2018	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2019
<u>Macomb Academy for the Arts and Sciences Activity Funds</u>				
MA2S Ambassadors	337	78	48	367
MA2S Beta Club	614	-	-	614
MA2S Field Trips	2	-	-	2
MA2S Fundraisers	1,954	1,916	2,898	972
MA2S Miscellaneous	131	90	64	157
MA2S Research Fund	85	-	30	55
MA2S Reserve Fund	76	45	75	46
Athletics	650	1,600	2,250	-
Art Club	31	-	-	31
Miscellaneous	127	-	127	-
Robotics Program	8,743	33,082	35,779	6,046
Tech Library	395	-	-	395
	<u>13,145</u>	<u>36,811</u>	<u>41,271</u>	<u>8,685</u>
 Total	 <u>\$ 409,767</u>	 <u>\$ 756,521</u>	 <u>\$ 758,350</u>	 <u>\$ 407,938</u>

Armada Area Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2019

Year Ending June 30,	2014 Refunding	2015 Refunding	2016 Tech Bond	2017 Series A	2017 Series B	2018 Building & Site Bond	Total
2020	\$ 995,000	\$ 750,000	\$ 625,000	\$ 45,000	\$ 2,940,000	\$ 235,000	\$ 5,590,000
2021	1,045,000	765,000	665,000	45,000	3,005,000	235,000	5,760,000
2022	1,100,000	780,000	700,000	45,000	3,080,000	245,000	5,950,000
2023	1,230,000	-	700,000	45,000	3,885,000	255,000	6,115,000
2024	1,285,000	-	-	45,000	-	380,000	1,710,000
2025	1,350,000	-	-	45,000	-	390,000	1,785,000
2026	965,000	-	-	400,000	-	485,000	1,850,000
2027	-	-	-	1,485,000	-	435,000	1,920,000
2028	-	-	-	1,545,000	-	445,000	1,990,000
2029	-	-	-	1,595,000	-	470,000	2,065,000
2030	-	-	-	1,630,000	-	510,000	2,140,000
2031	-	-	-	-	-	1,090,000	1,090,000
2032	-	-	-	-	-	1,125,000	1,125,000
Total	<u>\$ 7,970,000</u>	<u>\$ 2,295,000</u>	<u>\$2,690,000</u>	<u>\$ 6,925,000</u>	<u>\$ 12,910,000</u>	<u>\$ 6,300,000</u>	<u>\$ 39,090,000</u>
Principal payments due the first day of	May	May	May	May	May	May	
Interest payments due the first day of	May and November	May and November	May and November	May and November	May and November	May and November	
Interest rate	4.00% - 5.00%	2.00% - 5.00%	2.10%	2.00% - 3.00%	1.810% - 3.036%	3.00%	
Original issue	<u>\$ 11,570,000</u>	<u>\$ 3,750,000</u>	<u>\$4,100,000</u>	<u>\$ 6,925,000</u>	<u>\$ 15,815,000</u>	<u>\$ 6,490,000</u>	

OTHER REPORT



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

Independent Auditors' Report

Management and the Board of Education
Armada Area Schools
Armada, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Armada Area Schools as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Armada Area Schools' basic financial statements, and have issued our report thereon dated October 8, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Armada 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 Armada Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Armada 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 Armada 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.

Yeo & Yeo, P.C.

Flint, Michigan
October 8, 2019



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October 8, 2019

Management and the Board of Education
Armada Area Schools
74500 Burk Street
Armada, MI 48005

We have completed our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Armada Area Schools as of and for the year ended June 30, 2019, and have issued our report dated October 8, 2019. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 30, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 of the financial statements. The School District has adopted the new Government Accounting Standards Board Statements as noted in the notes to the financial statements, effective July 1, 2018.

We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement 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 Armada Area School's financial statements were:

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

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

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

Accounting Standards and Regulatory Updates

Accounting Standards

The Governmental Accounting Standards Board has released the following Statements:

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

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

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

Statement No. 90, *Majority Equity Interests* improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain components. This statement is effective for the year ending June 30, 2020.

Statement No. 91, *Conduit Debt Obligations* provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This statement is effective for the year ending June 30, 2022.

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

Regulatory and Other Updates

Federal Compliance

The Federal Compliance Supplement is being fully revised for 2019. Included in the revision is a mandate that the federal awarding agencies limit the requirement to test six of the compliance areas for each program. These program testing requirements are anticipated to vary on an annual basis. However, auditors will still need to

perform a risk assessment to determine if any additional requirements may need to be tested, or if some of those requirements will not be necessary to test as it may not be direct and material to the program. This does not alleviate districts from following all of the compliance requirements as described in the grant agreement. It simply identifies which ones auditors will be testing.

Budget Assumptions & Early Warning

Each school district that has a general fund balance less than 5% of total unrestricted general revenue for either of the 2016-2017 or 2017-2018 school fiscal years is required to submit budget assumptions to the Center for Educational Performance and Information (CEPI).

Uniform Budgeting and Accounting Act (UBAA)

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures that were more than trivial.

There were no uncorrected misstatements that were more than trivial.

Disagreements with Management

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

Management Representations

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

Management's Consultations with Other Accountants

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

Other Audit Findings or Issues

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

Other Reports

Other information that is required to be reported to you is included in the: Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditors' Report on Internal Control Over Compliance. Please read all information included in that report (those reports) to ensure you are aware of relevant information.

Report on Required Supplementary Information

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

Report on Other Supplementary Information

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

We discussed these matters with various personnel in the School District during the audit and have already met with management on. We would also be pleased to meet with you to discuss these matters at your convenience.

Restriction on Use

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

Yeo & Yeo, P.C.

Flint, Michigan