

Athens Area Schools

Financial Report
With Supplemental Information

Year Ended June 30, 2018

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Independent Auditors' Report

Board of Education
Athens Area Schools
Athens, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 12 to the financial statements, during the year ended June 30, 2018, Athens Area Schools implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and certain pension and OPEB information as listed 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated September 28, 2018, on our consideration of Athens Area Schools' internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Athens Area Schools' internal control over financial reporting and compliance.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 28, 2018

Athens Area Schools
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets:	
Cash and investments	\$ 1,753,150
Receivables	1,762
Due from other governmental units	834,567
Inventories	2,627
Capital assets:	
Cost of capital assets	10,294,521
Less: accumulated depreciation	(5,449,707)
Net capital assets	4,844,814
Total assets	7,436,920
 Deferred Outflows of Resources:	
Pension related	1,675,151
OPEB related	156,465
Total deferred outflows of resources	1,831,616
 Liabilities:	
State aid anticipation note	300,000
Accounts payable and accrued expenses	601,316
Unearned revenue	21,968
Due to agency fund	2,698
Long-term liabilities:	
Due within one year:	
Bonds, capital leases and contracts	183,066
Accrued interest	2,529
Due in more than one year:	
Bonds, capital leases and contracts	324,917
Compensated absences	117,994
Net pension liability	7,657,402
Net OPEB liability	2,625,140
Total liabilities	11,837,030
 Deferred Inflows of Resources:	
Pension related	746,331
OPEB related	93,137
Total deferred inflows of resources	839,468
 Net Position:	
Net investment in capital assets	4,336,831
Restricted for:	
Capital projects	799,650
Debt service	2,311
Unrestricted	(8,546,754)
Total net position	\$ (3,407,962)

Athens Area Schools
Statement of Activities
Year Ended June 30, 2018

<u>Functions/Programs</u>	<u>Program Revenue</u>			Governmental Activities
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues and Change in Net Position</u>
Primary Government				
Governmental activities				
Instruction	\$ 3,331,372	\$ -	\$ 1,145,315	\$ (2,186,057)
Support services	1,872,345	98,580	11,019	(1,762,746)
Food service activities	238,211	54,115	174,250	(9,846)
Community services	8,954	-	-	(8,954)
Payments to other districts	62,073	-	-	(62,073)
Interest on long-term debt	5,833	-	-	(5,833)
Capital outlay	156,485	-	-	(156,485)
Depreciation (unallocated)	357,062	-	-	(357,062)
Total governmental activities	<u>\$ 6,032,335</u>	<u>\$ 152,695</u>	<u>\$ 1,330,584</u>	<u>(4,549,056)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,037,392
Property taxes, levied for debt service				689,138
State aid not restricted to specific purposes				3,083,822
Unrestricted investment earnings				3,723
Other				132,656
Total general revenues				<u>4,946,731</u>
Change in Net Position				397,675
Net Position - Beginning of Year, as restated				<u>(3,805,637)</u>
Net Position - End of Year				<u>\$ (3,407,962)</u>

Athens Area Schools

Balance Sheet
Governmental Funds
June 30, 2018

	<u>General Fund</u>	<u>Capital Projects Funds</u>	<u>Nonmajor</u>		<u>Total Governmental Funds</u>
			<u>Debt Service Fund</u>	<u>Food Service Fund</u>	
<u>Assets</u>					
Cash and investments	\$ 849,302	\$ 875,439	\$ 8,087	\$ 20,322	\$ 1,753,150
Due from other funds	8,404	3,187	-	8,307	19,898
Receivable from other governments	833,222	-	-	1,345	834,567
Other receivables	1,762	-	-	-	1,762
Inventories	-	-	-	2,627	2,627
Total assets	<u>\$ 1,692,690</u>	<u>\$ 878,626</u>	<u>\$ 8,087</u>	<u>\$ 32,601</u>	<u>\$ 2,612,004</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 71,527	\$ 78,976	\$ -	\$ 495	\$ 150,998
Due to other funds	14,192	-	3,247	5,157	22,596
State aid anticipation notes	300,000	-	-	-	300,000
Unearned revenue	10,078	-	-	11,890	21,968
Salaries payable	447,226	-	-	-	447,226
Accrued expenditures	3,092	-	-	-	3,092
Total liabilities	<u>846,115</u>	<u>78,976</u>	<u>3,247</u>	<u>17,542</u>	<u>945,880</u>
Fund Balances:					
Nonspendable:					
Inventories	-	-	-	2,627	2,627
Restricted	-	799,650	4,840	12,432	816,922
Unassigned	846,575	-	-	-	846,575
Total fund balances	<u>846,575</u>	<u>799,650</u>	<u>4,840</u>	<u>15,059</u>	<u>1,666,124</u>
Total liabilities and fund balances	<u>\$ 1,692,690</u>	<u>\$ 878,626</u>	<u>\$ 8,087</u>	<u>\$ 32,601</u>	<u>\$ 2,612,004</u>

Athens Area Schools

Reconciliation of the Balance Sheet for Governmental Funds to the Statement of Net Position June 30, 2018

Total Fund Balances - Governmental Funds		\$	1,666,124
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>			
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.			4,844,814
Long-term liabilities not due and payable in the current period and not reported in the funds:			
Long-term debt payable	\$	(507,983)	
Accrued interest		(2,529)	
Compensated absences		(117,994)	
		(628,506)	(628,506)
The pension and OPEB liabilities and related deferred inflows and outflows are not due and payable in the current period and therefore are not reported in the funds.			
Net pension liability		(7,657,402)	
Net OPEB liability		(2,625,140)	
Deferred outflows related to pensions		1,675,151	
Deferred outflows related to OPEB		156,465	
Deferred inflows related to pensions		(746,331)	
Deferred inflows related to OPEB		(93,137)	
		(9,290,394)	(9,290,394)
Total Net Position - Governmental Activities			\$ (3,407,962)

Athens Area Schools
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2018

	General Fund	Capital Projects Funds	Nonmajor		Total Governmental Funds
			Debt Service Fund	Food Service Fund	
Revenues:					
Local sources	\$ 1,279,590	\$ 603,038	\$ 84,538	\$ 54,752	\$ 2,021,918
State sources	3,813,549	-	-	7,281	3,820,830
Federal sources	181,908	-	-	166,969	348,877
Interdistrict and other	224,086	-	-	-	224,086
Total revenues	<u>5,499,133</u>	<u>603,038</u>	<u>84,538</u>	<u>229,002</u>	<u>6,415,711</u>
Expenditures:					
Instruction	3,233,861	-	-	-	3,233,861
Support services	1,841,709	-	-	-	1,841,709
Food service activities	-	-	-	234,036	234,036
Community services	8,954	-	-	-	8,954
Payments to other districts	62,073	-	-	-	62,073
Debt service:					
Principal	57,686	-	125,000	-	182,686
Interest and other charges	-	-	5,390	-	5,390
Capital outlay	17,616	577,527	-	-	595,143
Total expenditures	<u>5,221,899</u>	<u>577,527</u>	<u>130,390</u>	<u>234,036</u>	<u>6,163,852</u>
Revenues Over (Under) Expenditures	<u>277,234</u>	<u>25,511</u>	<u>(45,852)</u>	<u>(5,034)</u>	<u>251,859</u>
Other Financing Sources (Uses):					
Proceeds from long-term debt	-	220,000	-	-	220,000
Transfers in	-	17,680	-	531	18,211
Transfers out	(531)	(17,680)	-	-	(18,211)
Total other financing sources (uses)	<u>(531)</u>	<u>220,000</u>	<u>-</u>	<u>531</u>	<u>220,000</u>
Net Changes in Fund Balance	276,703	245,511	(45,852)	(4,503)	471,859
Fund Balances - Beginning of Year	<u>569,872</u>	<u>554,139</u>	<u>50,692</u>	<u>19,562</u>	<u>1,194,265</u>
Fund Balances - End of Year	<u>\$ 846,575</u>	<u>\$ 799,650</u>	<u>\$ 4,840</u>	<u>\$ 15,059</u>	<u>\$ 1,666,124</u>

Athens Area Schools

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

Net Change in Fund Balances - Total Governmental Funds \$ 471,859

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

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

The amount by which depreciation \$357,062 was exceeded by capital expenditures \$438,737 in the current period. 81,675

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments and amortized bond premium exceeded proceeds. (37,314)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Accrued interest (443)
Compensated absences 6,329

Governmental funds report the required pension/OPEB contributions for the fiscal year June 30, 2018 as an expenditure. The Statement of Activities reports the fully accrued pension/OPEB expense based upon a September year-end to coincide with the State of Michigan's fiscal year.

Changes in pension related liabilities and deferrals	\$	(217,944)	
Changes in OPEB related liabilities and deferrals		93,513	
		(124,431)	

Change in Net Position of Governmental Activities \$ 397,675

Athens Area Schools
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	<u>Agency Fund</u>
Assets:	
Cash and cash equivalents	\$ 101,150
Due from other funds	2,698
Total assets	<u>\$ 103,848</u>
Liabilities:	
Due to student groups	\$ 103,848
	<u>\$ 103,848</u>

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of Athens Area Schools (the “School District” or “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below.

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. Based on the application of the criteria, the District does not contain any component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District’s government-wide activities are considered governmental activities.

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

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

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

It is the District’s policy to allocate resource outlays first to restricted net position with the remainder allocated to unrestricted net position.

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

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

District-Wide and Fund Financial Statements (Continued)

Fund-Based 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, severance pay, 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. Expenditure reimbursing grants are recognized when the qualifying expenditures have been incurred, eligibility requirements have been met, and receipt of monies is expected within the current availability period (60 days post year-end). All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also 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 the School District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Capital Project Fund – This type of fund is used to record bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for major remodeling and repairs. The District maintains three capital project funds, the 2015 Capital Projects Fund, the 2016 Sinking Fund, which has restricted property taxes as its source of revenue, and the 2018 Capital Projects Fund. For the 2015 and 2018 Capital Projects Fund, the School District has complied with the applicable provisions of Section 1351a of the Revised School Code. For the 2016 Sinking Fund, the School District has complied with the applicable provisions of Section 1212 of the Revised School Code.

Additionally, the government reports the following fund types:

Debt Service Fund – Debt Funds are used to record tax, interest, and other revenue for payment of principal and other expenditures thereof related to bond issues. The District maintains one debt fund to record all activity related to the 2015 and 2018 School Bus Bond Funds.

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 Special Revenue Fund maintained by the District is the Food Service Fund.

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

District-Wide and Fund Financial Statements (Continued)

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the District in a trustee capacity (trust funds) or as an agent (agency funds). Fiduciary Fund net position and results of operations are not included in the district-wide statements.

Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school-related purposes. The funds are segregated and held for the students and parents.

Revenues, Assets, Liabilities, and Net Position or Equity

State Revenue - The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a State-wide formula. The foundation allowance is funded from a combination of State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2018, the foundation allowance was based on pupil membership counts taken in February 2017 and September 2017.

The State portion of the foundation is provided primarily by a State education property tax millage of six mills on Principal Residence Exemption (PRE) property and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by non-PRE property (non-homestead) taxes which may be levied at a rate of up to 18 mills plus 6 mills on Commercial Personal Property. The State revenue is recognized during the foundation period and is funded through payments from October to August of each year. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

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

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

General Fund – Non-primary residence	18.0000
General Fund – Commercial personal property	6.0000
Debt Fund – All taxable values	0.4600
Capital Projects Fund – All taxable values	3.5000

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenues, Assets, Liabilities, and Net Position or Equity (Continued)

Property Taxes (Continued)

Tax abatements provided to property tax payers, if any, were not significant, and thus no disclosure was deemed required in accordance with GASB Statement No. 77, *Tax Abatement Disclosures*.

Cash and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The District reports its investments in accordance with GASB professional standards. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.” Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

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

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

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. The government defines capital assets as assets with an initial individual cost of \$5,000 or greater and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. 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 type assets.

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

Buildings and improvements	20-50 years
Buses and other vehicles	5-8 years
Furniture and equipment	5-20 years

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenues, Assets, Liabilities, and Net Position or Equity (Continued)

Compensated Absences - In the district-wide financial statements, the District reports a liability for compensated absences which consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently 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.

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 reported as a deferred inflow or outflow, separate from liabilities, and are amortized over the life of the bond using the straight-line method. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources – In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District currently reports deferred outflows of resources related to the net pension liability and the net OPEB liability. The District also reports deferred outflows of resources for pension and OPEB contributions made subsequent to the plan measurement date which will be recognized in the following year.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District currently reports deferred inflows of resources related to its net pension liability and net OPEB liability. These future resources will be amortized and recognized over a time period established by the actuary and relate to differences between actuarial estimates and actual results.

Defined Benefit Pension Plan – 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 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 plan benefit terms. Related plan investments are reported at fair value. See Note 10 for detailed information.

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 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. Related investments are reported at fair value. See Note 10 for detailed information.

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenues, Assets, Liabilities, and Net Position or Equity (Continued)

Fund Balance – The District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this guidance, fund balances of governmental funds are categorized according to five defined categories of fund balance. These categories consist of *nonspendable* amounts which are not in spendable form or are legally or contractually required to be maintained intact; *restricted* amounts that are constrained for specific purposes set by external parties or law; *committed* amounts that are constraints set by the highest decision making authority (the School Board) through adoption of a resolution and may only be removed by the School Board through a rescindment resolution; *assigned* amounts that have an intended purpose but require no formal specific action; and *unassigned* amounts which are the residual of the other categories and have no specific purpose.

It is the District's policy to generally use fund balance in order according to the hierarchy of fund balance categories, from restricted down to unassigned.

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

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplemental information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any, for the General Fund, are noted in the required supplemental information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end.

Athens Area Schools
Notes to Financial Statements

Note 3 – Cash and Investments

At year-end, the District's cash and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and investments	\$ 1,753,150	\$ 101,150	\$ 1,854,300

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

Deposits (checking and savings accounts, certificates of deposits)	\$ 1,854,200
Petty cash	100
Total	\$ 1,854,300

Investment and Deposit Risk – The District's cash and investments are subject to several types of risk, as noted below.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, approximately \$1,670,000 of the District's bank balance of \$1,920,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

Interest Rate Risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The District's investment policy does not restrict investment maturities beyond State law.

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The District's investment policy does not have specific limits in excess of State law on investment credit risk.

Concentration of Credit Risk – The District's investment policy does not limit investments with individual issuers.

Foreign Currency Risk – The District does not invest in foreign currency and does not maintain a policy regarding foreign currency risk.

Note 4 – Receivables

Receivables at year-end were approximately \$835,000 and consist mainly of amounts due from the State of Michigan and reimbursement for federal grants.

Athens Area Schools
Notes to Financial Statements

Note 5 – Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Year-End Balance</u>
Assets not being depreciated:				
Land	\$ 109,800	\$ -	\$ -	\$ 109,800
Capital assets being depreciated:				
Buildings and improvements	8,606,145	320,339	(17,699)	8,908,785
Buses and other vehicles	808,108	-	-	808,108
Furniture and equipment	349,430	118,398	-	467,828
Subtotal	<u>9,763,683</u>	<u>438,737</u>	<u>(17,699)</u>	<u>10,184,721</u>
Accumulated depreciation:				
Buildings and improvements	4,457,052	285,400	(17,699)	4,724,753
Buses and other vehicles	400,144	56,860	-	457,004
Furniture and equipment	253,148	14,802	-	267,950
Subtotal	<u>5,110,344</u>	<u>357,062</u>	<u>(17,699)</u>	<u>5,449,707</u>
Net capital assets being depreciated	<u>4,653,339</u>	<u>81,675</u>	<u>-</u>	<u>4,735,014</u>
Net capital assets	<u>\$ 4,763,139</u>	<u>\$ 81,675</u>	<u>\$ -</u>	<u>\$ 4,844,814</u>

Depreciation expense, which totaled \$357,062, was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

Note 6 – Notes Payable

For the fiscal year end June 30, 2018, the School District was issued State Aid anticipation notes that totaled \$700,000, with interest rates of 1.270 % and 1.490% and maturity dates of July 20, 2018 and August 21, 2018, as follows:

<u>Note</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
2017A-1	\$ 200,000	1.490%	8/20/2018
2017A-2	500,000	1.270%	7/20/2018

The State Aid Anticipation Notes are secured by the full faith and credit of the District as well as pledges of State Aid. Note 2017A-1 required payments to an irrevocable set-aside account. At year-end, the total of these payments is considered defeased debt and is not included in the year-end balance.

<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2018</u>
<u>\$ 420,000</u>	<u>\$ 700,000</u>	<u>\$ 820,000</u>	<u>\$ 300,000</u>

Athens Area Schools
Notes to Financial Statements

Note 6 – Notes Payable (Continued)

The District has also approved the issuance of State Aid anticipation notes for the 2018-2019 school year in the amounts of \$500,000 and \$200,000 with respective interest rates of 1.75% and 2.50% and with maturities dates of July 22, 2019 and August 20, 2019, respectively. Under the agreement, the District will begin making payments on the \$500,000 note beginning January 2019.

The District has also approved the issuance of a tax anticipation note of \$100,000 with an interest rate of 2.49% and a maturity of July 16, 2019. The proceeds of the sinking fund levy will be used to repay the note.

Note 7 – Interfund Receivables, Payables and Transfers

The District reports interfund balances between some of its funds. The sum of all balances presented in the table below agrees with the sum of interfund balances presented in the Balance Sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Due To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Food Service Fund	\$ <u>5,157</u>
General Fund	Debt Service Fund	\$ <u>3,247</u>
Capital Projects Fund	General Fund	\$ <u>3,187</u>
Food Service Fund	General Fund	\$ <u>8,307</u>
Agency Fund	General Fund	\$ <u>2,698</u>

A transfer of \$531 was made from the General Fund to the Food Service Fund to cover receivables considered uncollectible.

Note 8 – 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 as well as to account for compensated absences payable. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Long-term obligations can be summarized as follows.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
General obligation bonds	\$ 445,000	\$ 220,000	\$ 175,000	\$ 490,000	\$ 175,000
Installment purchases:					
Leases	25,669	-	7,686	17,983	8,066
Compensated absences	124,323	-	6,329	117,994	-
Total governmental activities	<u>\$ 594,992</u>	<u>\$ 220,000</u>	<u>\$ 189,015</u>	<u>\$ 625,977</u>	<u>\$ 183,066</u>

Athens Area Schools
Notes to Financial Statements

Note 8 – Long-Term Debt (Continued)

Annual debt service requirements to maturity on the above governmental obligations (excluding compensated absences) are as follows:

	Governmental Activities		
	Principal	Interest	Total
2019	\$ 183,066	\$ 15,869	\$ 198,935
2020	193,466	9,880	203,346
2021	131,451	3,508	134,959
	\$ 507,983	\$ 29,257	\$ 537,240

At June 30, 2018, long-term debt consisted of the following:

Capital lease obligation, US Bancorp Equipment Finance, secured by office photocopiers, payable in monthly installments of \$730 including interest at an imputed rate of 4.844% through August 25, 2021.	\$ 17,983
\$605,000 Energy Conservation Improvement Bonds, annual installments of \$50,000 to \$55,000 plus interest at a rate ranging from 3.50% to 4.90% through May 1, 2020.	110,000
2015 School Bus Bonds, annual installments of \$50,000 to \$125,000 plus interest at a rate ranging from 1.100% to 2.150% through May 1, 2021.	160,000
2018 School Bus Bonds, annual installments of \$70,000 to \$75,000 plus interest at a rate of 3.090% through May 1, 2021.	<u>220,000</u>
	<u>\$ 507,983</u>

Note 9 – Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injury as well as medical, life and workers' compensation benefits provided to employees. School Board liability, errors and omissions, student accident, and all health and life insurances have been purchased through a combination of self-insurance programs and commercial insurance policies.

The School District is a member of the School Employees Group (SEG), Self-Insured Workers Disability Compensation Fund (the "Fund"), established pursuant to the provisions of Act 138 of Michigan Public Acts of 1982, which authorizes contracts between school districts to form a self-insurance fund, and to prescribe conditions to the performance of these contracts.

The School District pays quarterly premiums to the Fund for workers' disability compensation coverage. The agreement with the Fund provides that the Fund will be self-sustaining through member premiums and will purchase both specific and aggregate insurance to the limits determined necessary by the Fund management.

At June 30, 2018, there were no claims which exceeded insurance coverage, nor have any settled claims during the past three years exceeded insurance coverage. The School District did not have any significant reduction in insurance coverage from previous years.

Athens Area Schools
Notes to Financial Statements

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions

Organization

Pension/OPEB Plan Description – The District participates in the Michigan Public School Employees' Retirement System ("MPERS" or "the System"), a State-wide, cost-sharing, multiple-employer defined benefit public employee retirement plan governed by the State of Michigan. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees and their beneficiaries, and covers substantially all employees of the District. There are currently approximately 700 participating employers in the System which meets the definition of a qualified pension trust fund under Section 401(a) of the Internal Revenue Code. In addition, the System maintains a health plan which provides postemployment healthcare benefits to all eligible retirees as an elective option including health, prescription drug, dental, and vision coverage.

The System was originally created under Public Act 136 of 1945, recodified, and currently operates under the provisions of Public Act 300 of 1980, as amended. Section 25 of this Act establishes a governing board and its 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 is administered by the Office of Retirement Services 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 included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report and are available on the ORS website at www.michigan.gov/orsschools. Information provided in this report includes financial data, actuarial assumptions data, and detailed information about the pension plan and OPEB plan fiduciary net positions.

Pension 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% to 1.50%. 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 or Pension Plus plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former member's right 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.

OPEB 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.

Athens Area Schools
Notes to Financial Statements

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Organization (Continued)

OPEB Benefits Provided (Continued) - To limit future liabilities of OPEB, 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 MPSERS, who earned service credit in the twelve months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

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

Pension/OPEB Plan Contributions – Public Act 300 of 1980, as amended, requires contributions from both the participating employers and the active plan members. The District, as a participating employer, is required to contribute amounts necessary to finance the coverage of pension and OPEB benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees (plan members) during the year, with an additional amount paid in to finance a portion of the unfunded accrued liability.

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

Pension Plan Contributions – The System is set up with several different benefit options which are available to plan members (employees) based on date of hire. The table below summarizes pension contribution rates in effect for fiscal year 2018:

<u>Benefit Type</u>	<u>Member Rates</u>	<u>Employer Rates</u>
Basic	0.0% - 4.0%	17.89% - 19.03%
Member Investment Plan (MIP)	3.0% - 7.0%	17.89% - 19.03%
Pension Plus	3.0% - 6.4%	16.61% - 18.40%
Pension Plus 2	6.2%	19.74%
Defined Contribution	0.0%	13.54% - 15.27%

Athens Area Schools
Notes to Financial Statements

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Organization (Continued)

Pension Plan Contributions (Continued) - The District's required and actual contributions to the pension plan for the year ended September 30, 2017 were \$693,081. The District's required and actual pension contributions include an allocation of \$317,336 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial liability (UAAL) stabilization rate for the year ended September 30, 2017.

OPEB Contributions – OPEB contribution rates in effect for the fiscal year 2017 were 3% for members under the Premium Subsidy option with a corresponding 5.91% contribution from employers and 0% for members under the Personal Healthcare Fund with a corresponding 5.69% employer contribution.

Required contributions to the OPEB plan from the District were \$230,793 for the year ended September 30, 2017. The District's required and actual OPEB contributions include an allocation of \$86,062 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial liability (UAAL) stabilization rate for the year ended September 30, 2017.

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

Proportionate Share of District's Net Pension Liability - At June 30, 2018, the District reported a liability of \$7,657,402 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2016. The District's proportionate share 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 statutorily required pension contributions from all applicable employers during the measurement period. At September 30, 2017, the District's proportionate share was .02954900 percent, a decrease of .00011708 percent from its proportion measured as of September 30, 2016.

Pension Expense - For the plan year ended September 30, 2017, the District's pension expense was \$832,213, exclusive of payments to fund the MPSERS UAAL stabilization rate.

Proportionate Share of District's Net OPEB Liability - At June 30, 2018, the District reported a liability of \$2,625,140 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 30, 2016. The District's proportionate share 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 statutorily required OPEB contributions from all applicable employers during the measurement period. At September 30, 2017, the District's proportionate share was .02964427 percent.

OPEB Expense - For the plan year ended September 30, 2017, the District's OPEB expense was \$174,608 exclusive of payments to fund the MPSERS UAAL stabilization rate.

Athens Area Schools
Notes to Financial Statements

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

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

Deferred Outflows and Deferred Inflows - At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>Pension</u>	<u>OPEB</u>	<u>Pension</u>	<u>OPEB</u>
Difference between expected and actual experience	\$ 66,548	\$ -	\$ 37,573	\$ 27,950
Changes of assumptions	838,929	-	-	-
Net difference between projected and actual earnings on pension/OPEB plan investments	-	-	366,074	60,799
Changes in proportion and differences between the School District's contributions and its proportionate share of contributions	105,165	-	39,647	4,388
School District contributions subsequent to the measurement date	<u>664,509</u>	<u>156,465</u>	<u>303,037</u>	<u>-</u>
Total	<u>\$ 1,675,151</u>	<u>\$ 156,465</u>	<u>\$ 746,331</u>	<u>\$ 93,137</u>

\$664,509 reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

\$156,465 reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

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

<u>Year Ended June 30</u>	<u>Pension</u>	<u>OPEB</u>
2019	\$ 178,013	\$ (22,428)
2020	296,109	(22,428)
2021	114,651	(22,428)
2022	(21,425)	(22,427)
2023	-	(3,426)

Payables to the Pension/OPEB Plan - The District reported an accrued pension/OPEB plan payable at June 30, 2018 of \$121,317. This amount represents employee withholdings and the employer amount payable for wages earned at June 30, 2018 but not yet paid.

Athens Area Schools
Notes to Financial Statements

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions

Actuarial Valuations and 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.

A summary of actuarial assumptions as of the latest actuarial valuation follows:

Valuation date	September 30, 2016
Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid), as well as OPEB	7.5%
Pension Plus Plan (hybrid)	7.0%
Projected salary increases	3.5 – 12.3%, including wage inflation at 3.5%
Healthcare cost trend rate	7.5% Year 1 graded to 3.5% Year 12
Cost of living pension adjustments	3.0% annual non-compounded for MIP members
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Additional assumption information includes the following:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension/OPEB valuations beginning with the September 30, 2014 valuation. The total pension/OPEB liability as of September 30, 2017 is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years – 4.5188 for pension plan employers and 5.4744 for OPEB plan employers.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Additional assumptions related to OPEB only include:

- 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 one or more dependents.

Athens Area Schools
Notes to Financial Statements

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

Long-Term Expected Rate of Return on Plan Assets – The long-term expected rate of return on pension/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 pension/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 pension/OPEB plan’s target asset allocation as of September 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic equity pools	28.0%	5.6%
Alternative investment pools	18.0%	8.7%
International equity	16.0%	7.2%
Fixed income pools	10.5%	(0.1)%
Real estate and infrastructure pools	10.0%	4.2%
Absolute return pools	15.5%	5.0%
Short-term investment pools	<u>2.0%</u>	(0.9)%
Total	<u>100.0%</u>	

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

Rate of Return – For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension/OPEB plan investments, net of pension/OPEB plan investment expense, was 13.24% and 11.82%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate - A discount rate of 7.5% was used to measure the total pension/OPEB liability (7.0% for the Pension Plus plan, a hybrid plan). This discount rate was based on the long-term expected rate of return on pension/OPEB plan investments of 7.5% (7.0% for the Pension Plus 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/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 pension/OPEB plan investments was applied to all periods of projected benefits payments to determine the total pension/OPEB liability.

Athens Area Schools
Notes to Financial Statements

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using a discount rate of 7.5% (7.0% for the Pension Plus Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher:

<u>Current Single Discount Rate</u>		
1% Decrease (Non-Hybrid/Hybrid)* <u>6.5%/6.0%</u>	Assumption (Non-Hybrid/Hybrid)* <u>7.5%/7.0%</u>	1% Increase (Non-Hybrid/Hybrid)* <u>8.5%/8.0%</u>
<u>\$9,975,048</u>	<u>\$7,657,402</u>	<u>\$5,706,092</u>

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

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher:

1% Decrease <u>6.5%</u>	Current Discount Rate <u>7.5%</u>	1% Increase <u>8.5%</u>
<u>\$3,074,797</u>	<u>\$2,625,140</u>	<u>\$2,243,521</u>

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate - The following presents the District's proportionate share of the net OPEB liability calculated using the assumed trend rates, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is one percentage point lower or one percentage point higher:

1% Decrease <u>6.5%</u>	Current Healthcare Cost Trend Rate <u>7.5%</u>	1% Increase <u>8.5%</u>
<u>\$2,223,140</u>	<u>\$2,625,140</u>	<u>\$3,081,582</u>

Note 11 – Federal and State Grants

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Athens Area Schools
Notes to Financial Statements

Note 12 – New Accounting Standard

For the year ended June 30, 2018, the District has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which was promulgated with the purpose of improving accounting and financial reporting for postemployment benefits other than pensions (OPEB). The Statement established standards for measuring and recognizing OPEB liabilities, OPEB expenses, and the related deferred inflows and deferred outflows of resources. The Statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan, similar to the requirements under GASB Statement No. 68 for pension liability reporting. The Statement also addresses standards for OPEB note disclosures and required supplementary information. Previous to the implementation of this standard, the OPEB liabilities were not recorded on the District's financial statements. The standard requires this change to be applied retroactively. As a result of this implementation, which was effective July 1, 2017, the beginning net position has been adjusted to reflect the beginning of year balances of the net OPEB liability and related deferrals of inflows and outflows of resources.

This restatement of net position is as follows:

Net position, as originally reported	\$ (1,150,314)
Adjustment for net OPEB liability and related deferred inflows and outflows	<u>(2,655,323)</u>
Restated beginning net position	<u><u>\$(3,805,637)</u></u>

Note 13 – Upcoming Accounting and Reporting Changes

GASB has issued Statement No. 84, *Fiduciary Activities*, to improve accounting and financial reporting over fiduciary activities. The Statement establishes criteria for identifying fiduciary activities and whether these identified fiduciary activities should be reported in a separate fiduciary fund in the basic financial statements. The Statement aims to enhance consistency and comparability for assessing government accountability and stewardship over fiduciary activities. Statement No. 84 will be effective for the District's fiscal year ending June 30, 2020.

Statement No. 87, *Leases*, was issued by the Governmental Accounting Standards Board to increase the usefulness of government financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. The Statement also addresses standards for note disclosures to include information regarding the timing, significance, and purpose of a government's leasing arrangements. Statement No. 87 will be effective for the District's fiscal year ending June 30, 2021.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, was issued to improve noted disclosures related to debt, including clarifying which liabilities should be included when governments disclose information regarding debt. The Statement requires the disclosure of essential information related to debt including unused lines of credit, collateral pledged as debt security, and other significant terms. Statement No. 88 will be effective for the District's fiscal year ending June 30, 2019.

Required Supplementary Information

Athens Area Schools
 Budgetary Comparison Schedule - General Fund
 Year Ended June 30, 2018

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Local sources	\$ 1,224,680	\$ 1,279,151	\$ 1,279,590
State sources	3,571,124	3,802,195	3,813,549
Federal sources	126,479	203,874	181,908
Interdistrict and other	204,348	232,767	224,086
Total revenues	<u>5,126,631</u>	<u>5,517,987</u>	<u>5,499,133</u>
Expenditures:			
Instruction:			
Basic programs	2,503,323	2,587,847	2,546,326
Added needs	669,848	709,714	687,535
Support services:			
Pupil	66,185	59,726	59,789
Instructional staff	81,583	181,863	171,086
General administration	80,397	75,627	66,030
School administration	317,317	314,418	304,402
Business	156,791	156,151	135,689
Operation & maintenance	460,800	473,965	463,615
Pupil transportation	358,309	381,732	360,312
Central services	110,397	154,577	147,956
Athletic activities	181,042	159,918	132,830
Community services:			
Community activities	-	11,787	8,229
Custody and care of children	-	5,596	-
Other	-	600	725
Payments to other public schools	75,000	75,000	62,073
Debt service:			
Principal and interest	58,000	58,000	57,686
Capital outlay	6,000	17,700	17,616
Total expenditures	<u>5,124,992</u>	<u>5,424,221</u>	<u>5,221,899</u>
Revenues Over (Under) Expenditures	<u>1,639</u>	<u>93,766</u>	<u>277,234</u>
Other Financing Sources (Uses):			
Transfers in	-	10,000	-
Transfers out	-	(1,000)	(531)
Total other financing sources (uses)	<u>-</u>	<u>9,000</u>	<u>(531)</u>
Net Changes in Fund Balances	1,639	102,766	276,703
Fund Balances - Beginning of Year	<u>569,872</u>	<u>569,872</u>	<u>569,872</u>
Fund Balances - End of Year	<u>\$ 571,511</u>	<u>\$ 672,638</u>	<u>\$ 846,575</u>

Athens Area Schools

Schedule of the District's Proportionate Share of the Net Pension Liability of the MPSERS Plan
Last Four Fiscal Years (Amounts Determined Each Year as of September 30)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of net pension liability (%)	<u>0.029549000%</u>	<u>0.029666080%</u>	<u>0.029370350%</u>	<u>0.028680000%</u>
District's proportionate share of net pension liability	<u>\$ 7,657,402</u>	<u>\$ 7,401,444</u>	<u>\$ 7,173,716</u>	<u>\$ 6,317,199</u>
District's covered payroll	<u>\$ 2,463,933</u>	<u>\$ 2,552,656</u>	<u>\$ 2,497,117</u>	<u>\$ 2,520,799</u>
District's proportionate share of net pension liability as a percentage of its covered payroll	<u>310.78%</u>	<u>289.95%</u>	<u>287.28%</u>	<u>250.60%</u>
Plan fiduciary net position as a percentage of total pension liability	<u>64.21%</u>	<u>63.27%</u>	<u>63.17%</u>	<u>66.20%</u>

Athens Area Schools

Schedule of the District's Pension Contributions to the MPSERS Plan
Last Four Fiscal Year (Amounts Determined Each Year as of June 30)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required pension contributions	\$ 703,243	\$ 691,857	\$ 661,526	\$ 554,197
Contributions in relation to statutorily required contributions	<u>703,243</u>	<u>691,857</u>	<u>661,526</u>	<u>554,197</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's employee payroll	<u>\$ 2,358,697</u>	<u>\$ 2,636,189</u>	<u>\$ 2,444,226</u>	<u>\$ 2,521,503</u>
Contributions as a percentage of covered-employee payroll	<u>29.81%</u>	<u>26.24%</u>	<u>27.06%</u>	<u>21.98%</u>

Athens Area Schools

Notes to Required Supplementary Information Pension Schedules
Year Ended June 30, 2018

Changes of Benefit Terms:

There were no changes of benefit terms in 2017.

Changes of Assumptions:

The actuarial assumption regarding the investment rate of return for MIP and Basic plans changed from 8.0% to 7.5% effective for the State's fiscal year ended September 30, 2017.

Athens Area Schools

Schedule of the District's Proportionate Share of the Net OPEB Liability of the MPSERS Plan
Fiscal Year (Amounts Determined as of September 30)

	<u>2017</u>
District's proportion of net OPEB liability (%)	<u>0.02964427%</u>
District's proportionate share of net OPEB liability	<u>\$ 2,625,140</u>
District's covered payroll	<u>\$ 2,463,933</u>
District's proportionate share of net OPEB liability as a percentage of its covered payroll	<u>106.54%</u>
Plan fiduciary net position as a percentage of total OPEB liability	<u>36.39%</u>

Athens Area Schools

Schedule of the District's OPEB Contributions to the MPSERS Plan
Fiscal Year (Amounts Determined as of June 30)

	<u>2018</u>
Statutorily required OPEB contributions	\$ 188,756
OPEB contributions in relation to statutorily required contributions	<u>188,756</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered payroll (OPEB)	<u>\$ 2,358,697</u>
OPEB contributions as a percentage of covered payroll	<u>8.00%</u>

Athens Area Schools

Notes to Required Supplementary Information OPEB Schedules
Year Ended June 30, 2018

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

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

Other Supplementary Information



WILLIS & JURASEK

CPAS AND CONSULTANTS

**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***

Board of Education
Athens Area Schools
Athens, Michigan

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Athens Area Schools as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Athens Area Schools' basic financial statements and have issued our report thereon dated September 28, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Athens 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

Board of Education
Athens Area Schools
Athens, Michigan

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Athens Area Schools' financial statements are free of 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 28, 2018