

KENOWA HILLS PUBLIC SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and
additional supplementary information)
YEAR ENDED JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Kenowa Hills Public 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 Kenowa Hills Public Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Kenowa Hills Public Schools' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Kenowa Hills Public Schools as of June 30, 2018, and the respective changes in financial position thereof 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, Kenowa Hills Public Schools implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kenowa Hills Public Schools' basic financial statements. The additional supplementary information, as identified in the table of contents, and the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such additional supplementary 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2018 on our consideration of Kenowa Hills Public 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 Kenowa Hills Public 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 Kenowa Hills Public Schools' internal control over financial reporting and compliance.

Maney Costeiran PC

October 22, 2018

MANAGEMENT’S DISCUSSION AND ANALYSIS

As management of Kenowa Hills Public Schools (“District”) we offer readers of the District’s annual financial report our discussion and analysis of the District’s financial performance during the fiscal year ended on June 30, 2018. Please read it in conjunction with the District’s financial statements which immediately follow this section.

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

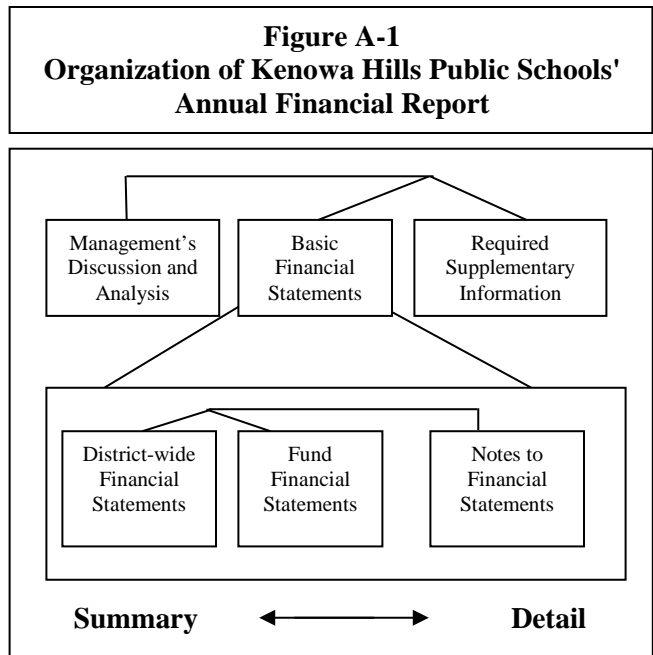
FINANCIAL OVERVIEW

- The District’s general fund financial situation improved from the 2017 fiscal year to 2018.
- For the 2017-2018 school year, fund balance in the general fund was increased by \$265,120.
- During the 2017-2018 school year compared to 2016-2017, general fund revenues increased by \$1,885,988 (5.73 percent), while expenditures increased by \$366,210 (1.07 percent).
- Enrollment decreased by 56 students during the 2017-2018 year. This represents a decrease of approximately 1.78 percent from the previous year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are District-wide financial statements that provide both short-term and long-term information about the District’s overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District’s operations in more detail than the District-wide notes to financial statements.
- The governmental funds statements tell how basic services like instruction and support services were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.



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

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

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

DISTRICT-WIDE STATEMENTS

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

The two district-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

District-wide financial statements:

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

FUND FINANCIAL STATEMENTS

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

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying debt, and its capital projects fund) or to show that it is properly using certain revenues (like school lunch).

The District has two kinds of funds.

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position - During the fiscal year ended June 30, 2018, the District's net position increased by \$105,347. The following is a summary of the District's combined net position at June 30, 2018.

Table A-3		
Kenowa Hills Public Schools' Net Position		
	2018	2017
Assets:		
Current and other assets	\$ 51,525,888	\$ 25,139,240
Capital assets	44,186,779	31,580,037
Total assets	95,712,667	56,719,277
Deferred outflows of resources	12,128,725	7,353,414
Liabilities:		
Other liabilities	8,697,931	8,102,140
Noncurrent liabilities	77,207,473	39,659,485
Net other postemployment benefits liability	16,660,701	-
Net pension liability	48,817,380	46,898,384
Total liabilities	151,383,485	94,660,009
Deferred inflows of resources	5,223,127	140,239
Net position:		
Net investment in capital assets	2,188,821	2,528,794
Restricted	4,234,791	3,917,442
Unrestricted	(55,188,832)	(37,173,793)
Total net position	\$ (48,765,220)	\$ (30,727,557)

Table A-4		
Changes in Kenowa Hills Public Schools' Net Position		
	2018	2017
Revenues:		
Program revenues:		
Charges for services	\$ 1,358,866	\$ 1,429,551
Federal and state categorical grants	12,631,855	9,949,340
General revenues:		
Property taxes	14,562,415	14,275,250
Investment earnings	397,720	113,812
State aid - unrestricted	12,883,452	13,607,737
Insurance refunds	1,191,096	3,148,267
Other	552,912	856,843
Total revenues	43,578,316	43,380,800
Expenses:		
Instruction	25,803,732	22,857,971
Support services	13,249,494	15,379,392
Community services	802,403	741,937
Food services	1,290,414	1,106,122
Interest on long-term debt	2,326,926	1,827,509
Total expenses	43,472,969	41,912,931
Change in net position	\$ 105,347	\$ 1,467,869

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

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

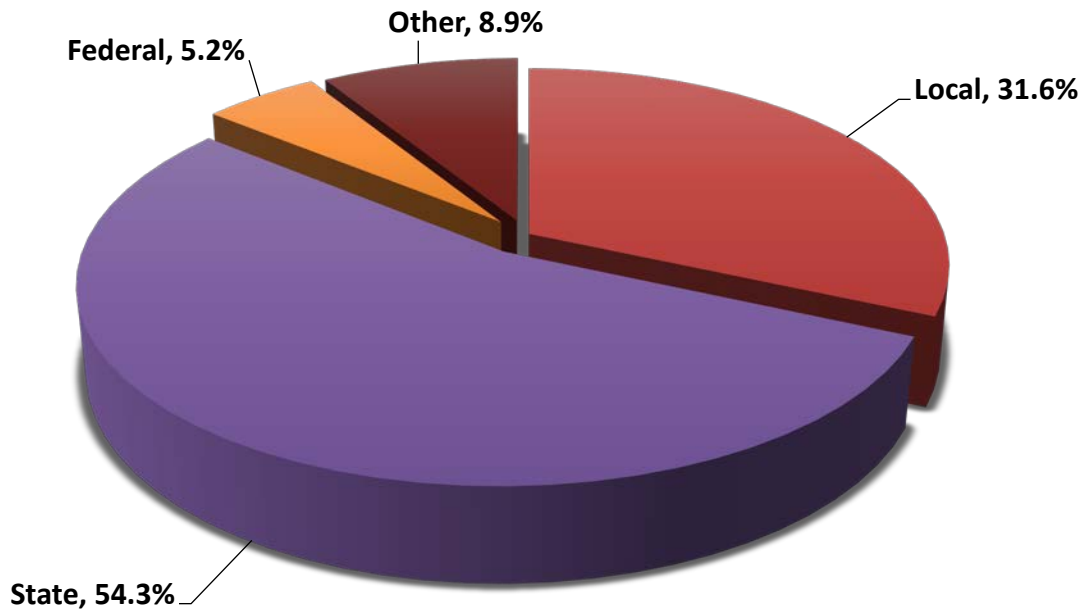
For the District as a whole its *combined* fund balance is \$43,433,142 compared to \$20,691,045 in 2017. The fund balance increased by \$22,742,097 for the year, primarily due to an increase of \$33,485,706 in the 2018 capital projects fund and a partially offsetting decrease of \$(12,159,088) in the 2016 capital project fund.

General Fund and Budget Highlights

During the 2017 - 2018 fiscal year the original district budget was amended three times to reflect changes which affected the District. The final budget was amended to show a projected current year fund balance of \$3,339,688 while the actual fund balance for the year was \$3,491,133. The better-than-anticipated final result was due largely to budgeted funds going unspent at the building and departmental levels and the timing expenses incurred.

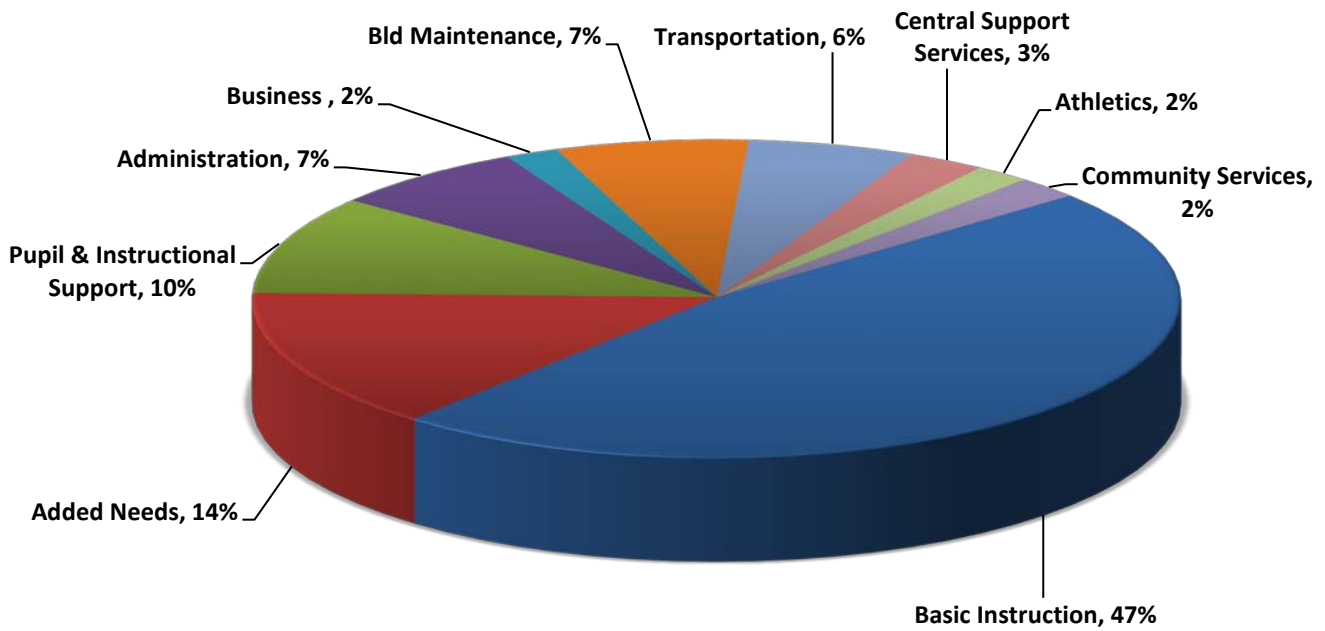
At June 30, 2018, the District's fund balance in the general fund was \$3,491,133. Remaining fund balance represented 10.03 percent of 2017 - 2018 general fund revenues or a 10.73% fund balance when adjusting for the UAAL contributions the District receives as pass through funds from the State of Michigan that do not go towards District discretionary spending.

Sources of General Fund Revenues for Fiscal Year 2017-18

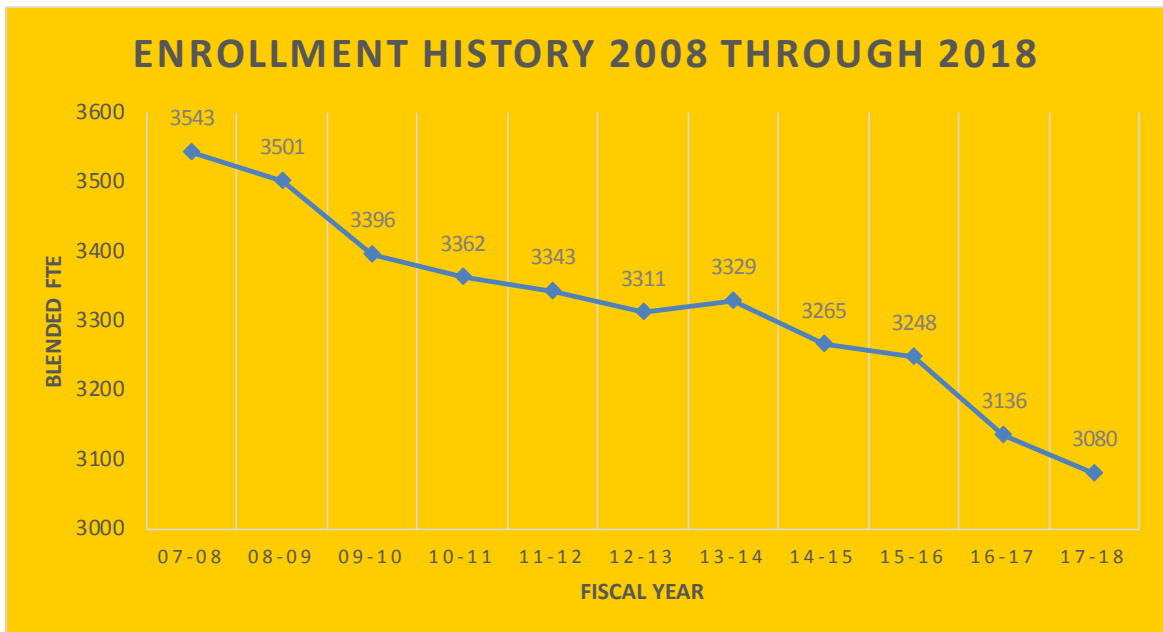


The District's General Fund expenses were nearly \$34.5 million in 2017-18. The District's expenses are predominantly related to instructing, caring for (added needs and pupil services) and transporting students (77 % of total General Fund Expenses). The District's administrative and business activities accounted for 9% of total costs. Operation and maintenance expenses accounted for 7%. Of the overall expenses, 77.2% were spent on wages & benefits for District employees.

Departmental Expenditures as Percentage of Total Expenses



Total revenues exceeded expenses, increasing the General Fund Balance by approximately \$265,000 over the prior fiscal year.



- The blended student count for which the District receives a foundation allowance decreased by 56 students between 2016-17 and 2017-18.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets are as follows:

Table A-5 Kenowa Hills Public Schools' Capital Assets				
	2018			2017
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 1,114,803	\$ -	\$ 1,114,803	\$ 1,106,100
Construction in progress	14,666,463	-	14,666,463	3,629,710
Land improvements	3,925,900	1,948,138	1,977,762	2,153,217
Buildings and additions	46,303,529	21,549,014	24,754,515	23,509,145
Furniture and equipment	2,086,783	1,362,627	724,156	417,371
Transportation equipment	2,492,116	1,543,036	949,080	764,494
Total	<u>\$ 70,589,594</u>	<u>\$ 26,402,815</u>	<u>\$ 44,186,779</u>	<u>\$ 31,580,037</u>

LONG-TERM DEBT

At June 30, 2018, the District had approximately \$77.2 million in long-term obligations which included \$76.7 million in outstanding bonded debt. The bonded debt obligation increased during the year as \$35.3 million of new bonds were issued. This increase was netted with a \$2.6 million decrease due to bonds being redeemed during the year. In addition to the bonded debt, the District has obligations for accumulated compensated absences estimated at roughly \$512 thousand at the end of the fiscal year. More detailed information is available in Note 5 to the financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Student enrollment was higher than projected in 2017-18 by 64 students.
- Declining enrollment continued in 2018, with a loss of 56 students on a blended count basis from the prior year. Declining enrollment creates constant budgetary pressure on the District to continue to offer programming.
- Negotiated contract agreements are in place with teacher and support staff unions through August 2021. In addition, transportation and all of the District custodial services were approved for 3-year contract extensions through June 30, 2021.
- The District's fund balance is its primary operating fund, the General Fund, increased by \$265,120 during the 2017-18 fiscal year to roughly \$3.5 million. This increase was more than the projected \$113,675 increase. The current fund balance represents 10.09Page 12% of the 2017-18 General Fund operation expenditures.
- Changes to valuations on some commercial and industrial properties, along with an increase in the housing market resulted in a 2.35% increase in taxable values over the prior year. This is the third consecutive year of positive change, which followed seven years of decline. The increase has resulted in a Headlee rollback for the 2018 tax year that will require a voter override.
- Approximately 54.25% of the District's revenue is funded by the State of Michigan; this is down from 2016-17. This is a result of the enrollment decline and the increase in property values.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional information, please contact the Business Office, Kenowa Hills Public Schools, 2325 Four Mile Road, N.W., Grand Rapids, MI 49544.

BASIC FINANCIAL STATEMENTS

KENOWA HILLS PUBLIC SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2018

	<u>Governmental activities</u>
ASSETS:	
Cash and cash equivalents	\$ 6,620,447
Investments	2,762,109
Receivables:	
Accounts receivable	4,084
Intergovernmental	3,735,151
Inventories	20,197
Prepays	56,240
Restricted cash and cash equivalents	1,447,300
Restricted investments	36,880,360
Capital assets not being depreciated	15,781,266
Capital assets, net of accumulated depreciation	28,405,513
TOTAL ASSETS	<u>95,712,667</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred charge on refunding	167,596
Related to other postemployment benefits	1,215,285
Related to pensions	10,745,844
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>12,128,725</u>
LIABILITIES:	
Accounts payable	4,129,925
Due to student activities	14,588
Accrued salaries and related items	2,591,431
Accrued retirement	789,510
Intergovernmental	153,027
Accrued interest	605,185
Unearned revenue	414,265
Noncurrent liabilities:	
Due within one year	1,851,809
Due in more than one year	75,355,664
Net other postemployment benefits liability	16,660,701
Net pension liability	48,817,380
TOTAL LIABILITIES	<u>151,383,485</u>
DEFERRED INFLOWS OF RESOURCES:	
Related to pensions	2,692,821
Related to other postemployment benefits	591,363
Related to state aid funding for pension	1,938,943
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>5,223,127</u>
NET POSITION:	
Net investment in capital assets	2,188,821
Restricted for debt service	4,234,791
Unrestricted	(55,188,832)
TOTAL NET POSITION	<u>\$ (48,765,220)</u>

See notes to financial statements.

**KENOWA HILLS PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net position</u>
Governmental activities:				
Instruction	\$ 25,803,732	\$ 81,332	\$ 9,912,750	\$ (15,809,650)
Support services	13,249,494	175,376	1,721,431	(11,352,687)
Community services	802,403	736,276	-	(66,127)
Food services	1,290,414	365,882	997,674	73,142
Interest on long-term debt	2,326,926	-	-	(2,326,926)
Total governmental activities	<u>\$ 43,472,969</u>	<u>\$ 1,358,866</u>	<u>\$ 12,631,855</u>	<u>(29,482,248)</u>
General revenues:				
Property taxes, levied for general purposes				9,625,702
Property taxes, levied for debt service				4,936,713
Investment earnings				397,720
State sources - unrestricted				12,883,452
Insurance proceeds				1,191,096
Other				552,912
Total general revenues				<u>29,587,595</u>
CHANGE IN NET POSITION				105,347
NET POSITION, beginning of year, as restated				<u>(48,870,567)</u>
NET POSITION, end of year				<u>\$ (48,765,220)</u>

**KENOWA HILLS PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	<u>General fund</u>	<u>2016 Capital projects</u>	<u>2018 Capital projects</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
ASSETS					
ASSETS:					
Cash and cash equivalents	\$ 1,826,200	\$ -	\$ -	\$ 4,794,247	\$ 6,620,447
Investments	2,242,563	-	-	519,546	2,762,109
Receivables:					
Accounts receivable	3,532	-	-	552	4,084
Intergovernmental receivables	3,698,236	-	-	36,915	3,735,151
Due from other funds	-	130,496	-	142,000	272,496
Due from student activities	-	-	-	18	18
Inventories	7,360	-	-	12,837	20,197
Prepays	50,780	-	-	5,460	56,240
Restricted cash and cash equivalents	-	197,239	1,250,061	-	1,447,300
Restricted investments	-	717,045	36,163,315	-	36,880,360
TOTAL ASSETS	\$ 7,828,671	\$ 1,044,780	\$ 37,413,376	\$ 5,511,575	\$ 51,798,402
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 328,977	\$ 625	\$ 3,797,117	\$ 3,206	\$ 4,129,925
Accrued salaries and related items	2,587,767	-	-	3,664	2,591,431
Accrued retirement	789,193	-	-	317	789,510
Intergovernmental payables	153,027	-	-	-	153,027
Due to student activities	14,606	-	-	-	14,606
Due to other funds	69,046	-	130,553	72,897	272,496
Unearned revenue	394,922	-	-	19,343	414,265
TOTAL LIABILITIES	4,337,538	625	3,927,670	99,427	8,365,260
FUND BALANCES:					
Nonspendable:					
Inventories	7,360	-	-	12,837	20,197
Prepays	50,780	-	-	5,460	56,240

See notes to financial statements.

	<u>General fund</u>	<u>2016 Capital projects</u>	<u>2018 Capital projects</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
FUND BALANCES (Concluded):					
Restricted for:					
Debt service	\$ -	\$ -	\$ -	\$ 4,839,976	\$ 4,839,976
Capital projects	-	1,044,155	33,485,706	-	34,529,861
Food service	-	-	-	135,045	135,045
Assigned for:					
Capital projects	-	-	-	418,830	418,830
Unassigned	3,432,993	-	-	-	3,432,993
TOTAL FUND BALANCES	<u>3,491,133</u>	<u>1,044,155</u>	<u>33,485,706</u>	<u>5,412,148</u>	<u>43,433,142</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 7,828,671</u>	<u>\$ 1,044,780</u>	<u>\$ 37,413,376</u>	<u>\$ 5,511,575</u>	<u>\$ 51,798,402</u>
Total governmental fund balances					\$ 43,433,142
Amounts reported for governmental activities in the statement of net position are different because:					
Deferred charge on refunding, net of amortization					167,596
Deferred outflows of resources - related to pensions					10,745,844
Deferred outflows of resources - related to other postemployment benefits					1,215,285
Deferred inflows of resources - related to pensions					(2,692,821)
Deferred inflows of resources - related to other postemployment benefits					(591,363)
Deferred inflows of resources - related to state pension funding					(1,938,943)
Capital assets used in governmental activities are not financial resources and are not reported in the funds:					
The cost of the capital assets is				\$ 70,589,594	
Accumulated depreciation is				<u>(26,402,815)</u>	
					44,186,779
Long-term liabilities are not due and payable in the current period and are not reported in the funds:					
Bonds payable					(76,695,415)
Compensated absences					(512,058)
Accrued interest is not included as a liability in government funds, it is recorded when paid					(605,185)
Net other postemployment benefits liability					(16,660,701)
Net pension liability					(48,817,380)
Net position of governmental activities					<u>\$ (48,765,220)</u>

See notes to financial statements.

KENOWA HILLS PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	<u>General fund</u>	<u>2016 Capital projects</u>	<u>2018 Capital projects</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
REVENUES:					
Local sources:					
Property taxes	\$ 9,625,702	\$ -	\$ -	\$ 4,936,713	\$ 14,562,415
Tuition	745,036	-	-	-	745,036
Investment earnings	46,756	129,090	187,659	34,215	397,720
Food sales and athletics	119,478	-	-	365,882	485,360
Insurance proceeds	-	-	-	1,191,096	1,191,096
Other	511,230	-	-	183,764	694,994
Total local sources	11,048,202	129,090	187,659	6,711,670	18,076,621
State sources	18,906,169	-	-	181,081	19,087,250
Federal sources	1,823,286	-	-	1,533,012	3,356,298
Incoming transfers and other	3,027,123	-	-	-	3,027,123
Total revenues	34,804,780	129,090	187,659	8,425,763	43,547,292
EXPENDITURES:					
Current:					
Instruction	21,154,539	-	-	-	21,154,539
Supporting services	12,451,356	-	-	-	12,451,356
Food service activities	-	-	-	1,246,697	1,246,697
Community service activities	776,436	-	-	-	776,436
Outgoing transfers and other transactions	74,400	-	-	-	74,400
Capital outlay	-	12,288,178	3,796,618	1,401,836	17,486,632

See notes to financial statements.

	<u>General fund</u>	<u>2016 Capital projects</u>	<u>2018 Capital projects</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
EXPENDITURES (Concluded)					
Debt service:					
Principal repayment	\$ -	\$ -	\$ -	\$ 2,630,000	\$ 2,630,000
Interest expense	-	-	-	2,066,088	2,066,088
Bond issuance costs	-	-	217,317	-	217,317
Other	-	-	-	13,712	13,712
Total expenditures	<u>34,456,731</u>	<u>12,288,178</u>	<u>4,013,935</u>	<u>7,358,333</u>	<u>58,117,177</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>348,049</u>	<u>(12,159,088)</u>	<u>(3,826,276)</u>	<u>1,067,430</u>	<u>(14,569,885)</u>
OTHER FINANCING SOURCES (USES):					
Premium on issuance of debt	-	-	1,976,982	-	1,976,982
Proceeds from issuance of bonds	-	-	35,335,000	-	35,335,000
Transfers in	59,071	-	-	208,654	267,725
Transfers out	<u>(142,000)</u>	<u>-</u>	<u>-</u>	<u>(125,725)</u>	<u>(267,725)</u>
Total other financing sources	<u>(82,929)</u>	<u>-</u>	<u>37,311,982</u>	<u>82,929</u>	<u>37,311,982</u>
NET CHANGE IN FUND BALANCES	<u>265,120</u>	<u>(12,159,088)</u>	<u>33,485,706</u>	<u>1,150,359</u>	<u>22,742,097</u>
FUND BALANCES:					
Beginning of year	<u>3,226,013</u>	<u>13,203,243</u>	<u>-</u>	<u>4,261,789</u>	<u>20,691,045</u>
End of year	<u>\$ 3,491,133</u>	<u>\$ 1,044,155</u>	<u>\$ 33,485,706</u>	<u>\$ 5,412,148</u>	<u>\$ 43,433,142</u>

See notes to financial statements.

KENOWA HILLS PUBLIC 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	\$ 22,742,097
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:	
Depreciation expense	(1,588,450)
Capital outlay	14,201,124
Loss on disposal of capital assets	(5,932)
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued interest payable, beginning of the year	344,347
Accrued interest payable, end of the year	(605,185)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on 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. The effect of these differences in the treatment of long-term debt and related items are as follows:	
Payments on debt	2,630,000
Proceeds from issuance of bonds	(35,335,000)
Premium on debt refunding	(1,976,982)
Amortization of deferred loss on refunding	(20,949)
Amortization of bond premium	429,598
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Accrued compensated absences, beginning of the year	526,052
Accrued compensated absences, end of the year	(512,058)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Other postemployment benefits items	122,552
Pension related items	(890,603)
Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension and other postemployment benefit contributions subsequent to the measurement period:	
Change in state aid funding for pension and other post employment benefits	44,736
Change in net position of governmental activities	<u><u>\$ 105,347</u></u>

**KENOWA HILLS PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2018**

	Agency fund	Private purpose trust fund
ASSETS:		
Cash and cash equivalents	\$ 328,072	\$ 42,915
Accounts receivable - primary government	14,606	-
TOTAL ASSETS	342,678	42,915
LIABILITIES:		
Accounts payable	807	-
Accounts payable - primary government	18	-
Due to student and other groups	341,853	-
TOTAL LIABILITIES	342,678	-
NET POSITION:		
Restricted for trust activities	\$ -	\$ 42,915

**KENOWA HILLS PUBLIC SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2018**

	Private purpose trust fund
ADDITIONS:	
Interest on deposits and investments	\$ 536
Donations	4,800
Total Additions	5,336
DEDUCTIONS:	
Scholarships	2,800
CHANGE IN NET POSITION	2,536
NET POSITION:	
Beginning of year	40,379
End of year	\$ 42,915

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

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

B. Reporting Entity

The Kenowa Hills Public Schools Board of Education (the “Board”), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

C. Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

D. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the District’s funds, including its fiduciary funds. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Continued)

The District reports the following major governmental funds:

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

The *2016 building and site fund* accounts for the proceeds of certain bonds payable that are restricted to expenditure for capital outlays for voter-approved purposes.

The *2018 building and site fund* accounts for the proceeds of certain bonds payable that are restricted to expenditure for capital outlays for voter-approved purposes.

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of §1351a of the Revised School Code.

Beginning with the year of bond issuance, the District has reported the annual construction activity in the 2016 and 2018 capital projects funds. The projects for the 2016 and 2018 bonds are considered in process as of June 30, 2018. The following is a summary of the cumulative revenue and expenditures for the capital projects funds' activities:

	Capital projects	
	2016 Capital projects	2018 Capital projects
Revenue and other financing sources	\$ 18,253,536	\$ 37,499,641
Expenditures	\$ 17,209,381	\$ 4,013,935

Other nonmajor funds

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service activities in the special revenue fund.

The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects fund* accounts for the transfers from the general fund and sales of capital assets for the acquisition of fixed assets.

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Concluded)

Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

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

The *private purpose trust fund* is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where both the principal and interest may be spent. These funds are not reported on the District financial statements.

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

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

E. Measurement Focus and Basis of Accounting

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

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates 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.

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

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

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

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end).

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

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

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 governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measurable and available only when cash is received by the District.

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information

Budgetary basis of accounting:

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

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

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

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

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and cash equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of 3 months or less from the date of acquisition.

2. Investments

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. 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.

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. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

3. Inventories and prepaid items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

4. Capital assets

Capital assets, which include property, plant, equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

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

Land and construction in progress are not depreciated. The other property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Buildings and additions	40 - 50 years
Land improvements	10 - 20 years
Furniture and equipment	3 - 10 years
Vehicles	5 - 10 years

5. Defined benefit plan

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

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

6. Deferred outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has three items that qualify for reporting in this category. They are the deferred charge on refunding and pension and other postemployment benefits related items reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred outflow is recognized for pension and other postemployment benefit related items. These amounts are expensed in the plan year in which they apply.

7. Deferred inflows

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

8. Net position flow assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Concluded)

9. Fund balance flow assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the District that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board of Education has by resolution authorized the superintendent and finance director to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Revenues and Expenditures/Expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. 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 valuation:

Fund	Mills
General fund:	
Non-Principal Residence Exemption (PRE)	18.0000
Commercial Personal Property	6.0000
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property	4.4100

3. Compensated absences

The District's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

H. Revenues and Expenditures/Expenses (Concluded)

4. Long-term obligations

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's rating</u>	<u>%</u>
Bank Money Market Fund	\$ 2,432	0.0027	AAAm	0.0%
MILAF - Federal Agency Bonds / Notes	643,562	0.0027	AAAm	1.6%
MILAF - Money Market Mutual Fund	38,996,475	0.0027	AAAm	98.4%
Total fair value	<u>\$ 39,642,469</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

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

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

MILAF funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. These funds are not subject to the fair value disclosures.

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

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2018, the District did not have investments in commercial paper and corporate bonds.

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

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2018, \$8,104,591 of the District's bank balance of \$8,854,591 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount is \$8,438,734.

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

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

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

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)

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

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

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

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

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

The District does not have any investments subject to the fair value measurement.

The carrying amount of deposits and investments are as follows:

Deposits - including fiduciary funds of \$370,987	\$ 8,438,734
Investments	39,642,469
	<u>\$ 48,081,203</u>

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

Cash - fiduciary funds	\$ 370,987
Cash and cash equivalents	6,620,447
Restricted cash and cash equivalents	1,447,300
Investments	2,762,109
Restricted investments	36,880,360
	<u>\$ 48,081,203</u>

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2018, consist of the following:

	Governmental funds
Other intergovernmental units:	
State aid	\$ 3,270,703
Federal revenue	287,984
ISD and other	176,464
	\$ 3,735,151

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

No allowance for doubtful accounts is considered necessary.

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Assets not being depreciated:				
Land	\$ 1,106,100	\$ 8,703	\$ -	\$ 1,114,803
Construction in progress	3,629,710	11,036,753	-	14,666,463
Total assets not being depreciated	4,735,810	11,045,456	-	15,781,266
Other capital assets:				
Land improvements	3,925,900	-	-	3,925,900
Buildings and additions	43,984,508	2,319,021	-	46,303,529
Furniture and equipment	1,637,809	461,296	12,322	2,086,783
Vehicles	2,461,733	375,351	344,968	2,492,116
Subtotal	52,009,950	3,155,668	357,290	54,808,328
Accumulated depreciation:				
Land improvements	1,772,683	175,455	-	1,948,138
Buildings and additions	20,475,363	1,073,651	-	21,549,014
Furniture and equipment	1,220,438	153,579	11,390	1,362,627
Vehicles	1,697,239	185,765	339,968	1,543,036
Total accumulated depreciation	25,165,723	1,588,450	351,358	26,402,815
Net capital assets being depreciated	26,844,227	1,567,218	5,932	28,405,513
Net governmental capital assets	\$ 31,580,037	\$ 12,612,674	\$ 5,932	\$ 44,186,779

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS (Concluded)

Depreciation expense was charged to programs of the District as follows:

Governmental activities:	
Food service	\$ 21,444
Community service	12,708
Support services	317,690
Instruction	<u>1,236,608</u>
Total governmental activities	<u><u>\$ 1,588,450</u></u>

NOTE 5 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

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

	Accumulated compensated absences	Bonds	Total
Balance July 1, 2017	\$ 526,052	\$ 42,443,031	\$ 42,969,083
Additions	-	37,311,982	37,311,982
Deletions	<u>(13,994)</u>	<u>(3,059,598)</u>	<u>(3,073,592)</u>
Balance June 30, 2018	512,058	76,695,415	77,207,473
Due within one year	<u>76,809</u>	<u>1,775,000</u>	<u>1,851,809</u>
Total due in more than one year	<u><u>\$ 435,249</u></u>	<u><u>\$ 74,920,415</u></u>	<u><u>\$ 75,355,664</u></u>

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM DEBT (Concluded)

Bonds payable at June 30, 2018 is comprised of the following issues:

2010 Building and site bonds due in full on May 1, 2026 with interest paid semi-annually from 3.55% to 6.375%.	\$ 11,890,000
2015 Refunding bonds due in annual installments of \$1,195,000 to \$1,560,000 through May 1, 2026 with interest of 5.00%.	11,085,000
2016 Building and site bonds due in annual installments of \$50,000 to \$600,000 through May 1, 2045 with interest of 5.00%.	12,740,000
2018 Building and site bonds due in semi-annual installments of \$120,000 to \$2,925,000 through May 1, 2045 with interest from 3.00% to 5.00%.	35,335,000
Plus unamortized premium	<u>5,645,415</u>
Total general obligation debt	76,695,415
Obligation under contract for compensated absences	<u>512,058</u>
Total general long-term debt	<u><u>\$ 77,207,473</u></u>

The annual requirements to amortize debt outstanding as of June 30, 2018, including interest payments, are as follows:

Year ending June 30,	Principal	Interest	Amounts payable
2019	\$ 1,775,000	\$ 2,844,124	\$ 4,619,124
2020	1,550,000	2,620,569	4,170,569
2021	1,710,000	2,544,419	4,254,419
2022	1,880,000	2,459,269	4,339,269
2023	2,065,000	2,367,219	4,432,219
2024 - 2028	26,110,000	9,757,606	35,867,606
2029 - 2033	20,015,000	5,347,493	25,362,493
2034 - 2038	9,645,000	2,304,722	11,949,722
2039 - 2043	4,700,000	925,250	5,625,250
2044 - 2045	1,600,000	104,500	1,704,500
	71,050,000	31,275,169	102,325,169
Premium on bond refunding	5,645,415	-	5,645,415
Accumulated compensated absences	512,058	-	512,058
	<u>\$ 77,207,473</u>	<u>\$ 31,275,169</u>	<u>\$ 108,482,642</u>

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2018 are as follows:

Receivable fund		Payable fund	
2016 Capital projects fund	\$ 130,496	General fund	\$ 69,046
Capital projects fund	142,000	Special revenue	72,897
	\$ 272,496	2018 Capital projects fund	130,553
	\$ 272,496		\$ 272,496

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

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS

Plan Description

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

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

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

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Benefits Provided - Overall

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

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

Benefits Provided - Pension

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

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

Pension Reform 2010

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

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Pension Reform 2012

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

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

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

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

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

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

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

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Pension Reform 2012 (Concluded)

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

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

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

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

Pension Reform of 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closes the current hybrid plan (Pension Plus Plan) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan is 6%. Further, the law provides that, under certain conditions, the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for 2 consecutive years. The law includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Benefits Provided - Other Postemployment Benefit (OPEB)

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

Retiree Healthcare Reform of 2012

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

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

Regular Retirement (no reduction factor for age)

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

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

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Member Contributions

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

Employer Contributions

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

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

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

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

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

The District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately \$4,944,000 with \$4,898,000 specifically for the Defined Benefit Plan.

The District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total. OPEB benefits were approximately \$1,435,000, with \$1,375,000 specifically for the Defined Benefit Plan.

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

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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

Pension Liabilities

At June 30, 2018, the District reported a liability of \$48,817,380 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the District's proportion was 0.18838% and 0.18798%.

<u>MPERS (Plan) non-university employers</u>	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Total pension liability	\$ 72,407,218,688	\$ 67,917,445,078
Plan fiduciary net position	\$ 46,492,967,573	\$ 42,968,263,308
Net pension liability	\$ 25,914,251,115	\$ 24,949,181,770
Proportionate share	0.18838%	0.18798%
Net pension liability for the District	\$ 48,817,380	\$ 46,898,384

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

For the year ended June 30, 2018, the District recognized pension expense of approximately \$5,788,000.

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

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Changes of assumptions	\$ 5,348,332	\$ -
Changes in proportion and differences between employer contributions and proportionate share of contributions	443,065	119,492
Net difference between projected and actual plan investment earnings	-	2,333,792
Difference between expected and actual experience	424,256	239,537
Reporting Unit's contributions subsequent to the measurement date	4,530,191	-
	<u>\$ 10,745,844</u>	<u>\$ 2,692,821</u>

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Concluded)

\$4,530,191, reported as deferred outflows of resources related to pensions resulting from district employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

Year ended September 30,	Amount
2018	\$ 1,059,958
2019	1,828,045
2020	740,108
2021	(105,279)

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

OPEB Liabilities

At June 30, 2018, the District reported a liability of \$16,660,701 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017, the District's proportion was 0.18814%.

<i>MPERS (Plan) non-university employers</i>	September 30, 2017
Total other postemployment benefit liability	\$ 13,920,945,991
Plan fiduciary net position	\$ 5,065,474,948
Net other postemployment benefit liability	\$ 8,855,471,043
Proportionate share	0.18814%
Net other postemployment benefit liability for the District	\$ 16,660,701

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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

For the year ended June 30, 2018, the District recognized OPEB expense of approximately \$1,252,000.

At June 30, 2018, the Reporting Unit 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
Differences between expected and actual experience	\$ -	\$ 177,387
Net difference between projected and actual earnings on OPEB plan investments	-	385,866
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	28,110
Employer contributions subsequent to the measurement date	1,215,285	-
	\$ 1,215,285	\$ 591,363

\$1,215,285, reported as deferred outflows of resources related to OPEB resulting from district employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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

Year ended September 30,	Amount
2018	\$ (142,393)
2019	(142,393)
2020	(142,393)
2021	(142,393)
2022	(21,791)

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Actuarial Assumptions

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

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

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

Inflation - 3.0%.

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

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

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

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

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

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

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

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

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Actuarial Assumptions (Continued)

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

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

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

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

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

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

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Actuarial Assumptions (Continued)

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

	Pension		
	1% Decrease (6.5% - 6.0%)	Discount rate (7.5% - 7.0%)	1% Increase (8.5% - 8.0%)
Reporting Unit's proportionate share of the net pension liability	<u>\$ 63,592,809</u>	<u>\$ 48,817,380</u>	<u>\$ 36,377,410</u>

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

	Other postemployment benefit		
	1% Decrease (6.5%)	Discount rate (7.5%)	1% Increase (8.5%)
Reporting Unit's proportionate of the net other postemployment benefit liability	<u>\$ 19,514,496</u>	<u>\$ 16,660,701</u>	<u>\$ 14,238,722</u>

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Concluded)

Actuarial Assumptions (Concluded)

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

	Other postemployment benefit		
	1% Decrease (6.5% decreasing to 2.5%)	Healthcare cost trend (7.5% decreasing to 3.5%)	1% Increase (8.5% decreasing to 4.5%)
Reporting Unit's proportionate share of the net other postemployment benefit liability	\$ 14,109,374	\$ 16,660,701	\$ 19,557,555

Pension and OPEB Plan Fiduciary Net Position

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

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

Other Information

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

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omission; injuries to employees and natural disasters. The District has purchased commercial insurance for property loss, errors and omissions, workers' compensation, health benefits, and dental and vision benefits provided to employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

There were no significant reductions in insurance coverage in fiscal 2017-18, and as of the year ended June 30, 2018, there were no material pending claims against the District.

NOTE 9 - TRANSFERS

The food service fund transferred \$59,071 to the general fund. The transfer from the food service fund was made to allocate indirect costs between the funds. The general fund transferred \$142,000 to the 2013 capital projects fund for future capital expenditures. \$66,654 was transferred among various debt service funds to close out two of the funds.

NOTE 10 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustments 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 expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 - TAX ABATEMENTS

The District is required to disclose significant tax abatements as required by GASB Statement No. 77, *Tax Abatements*.

The District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions, Brownfield Redevelopment Agreements, and Payments in Lieu of Taxes (PILOT) granted by cities, villages and townships. 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; PILOT programs apply to multiple unit housing for citizens of low income and the elderly. The property taxes abated for all funds by municipality under these programs are as follows:

Municipality	Taxes abated
City of Walker	\$ 845,614
Alpine Township	325,479
	\$ 1,171,093

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

There are no significant abatements made by the District.

NOTE 12 - NEW ACCOUNTING STANDARD

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

Summary:

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

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 12 - NEW ACCOUNTING STANDARD (Concluded)

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

	Governmental activities
Net position as previously stated July 1, 2017	\$ (30,727,557)
Adoption of GASB Statement No. 75	
Net OPEB liability	(17,573,348)
Deferred outflows	1,414,017
Deferred inflows	(1,983,679)
Net position as restated July 1, 2017	\$ (48,870,567)

NOTE 13 - UPCOMING ACCOUNTING PRONOUNCEMENTS

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

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

REQUIRED SUPPLEMENTARY INFORMATION

**KENOWA HILLS PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2018**

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	\$ 11,613,475	\$ 11,116,025	\$ 11,048,202	\$ (67,823)
State sources	17,867,725	18,961,925	18,906,169	(55,756)
Federal sources	1,942,775	1,948,825	1,823,286	(125,539)
Incoming transfers and other	2,411,375	3,080,150	3,027,123	(53,027)
Total revenues	<u>33,835,350</u>	<u>35,106,925</u>	<u>34,804,780</u>	<u>(302,145)</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	16,002,700	16,434,475	16,275,035	159,440
Added needs	4,607,625	4,939,825	4,879,504	60,321
Total instruction	<u>20,610,325</u>	<u>21,374,300</u>	<u>21,154,539</u>	<u>219,761</u>
Supporting services:				
Pupil	1,780,450	1,872,825	1,856,788	16,037
Instructional staff	1,405,525	1,694,350	1,607,121	87,229
General administration	503,150	441,225	397,731	43,494
School administration	1,968,950	1,995,050	2,000,922	(5,872)
Business	430,125	620,500	642,912	(22,412)
Operation/maintenance	2,474,525	2,429,275	2,328,491	100,784
Pupil transportation	1,953,000	2,010,475	2,006,587	3,888
Central	1,018,025	1,003,650	942,608	61,042
Other	670,650	674,900	668,196	6,704
Total supporting services	<u>12,204,400</u>	<u>12,742,250</u>	<u>12,451,356</u>	<u>290,894</u>
Community services	699,725	787,500	776,436	11,064
Outgoing transfers and other	2,000	89,200	74,400	14,800
Total expenditures	<u>33,516,450</u>	<u>34,993,250</u>	<u>34,456,731</u>	<u>536,519</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>318,900</u>	<u>113,675</u>	<u>348,049</u>	<u>234,374</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	59,071	59,071
Transfers out	-	-	(142,000)	(142,000)
Total other financing sources	<u>-</u>	<u>-</u>	<u>(82,929)</u>	<u>(82,929)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 318,900</u>	<u>\$ 113,675</u>	<u>265,120</u>	<u>\$ 151,445</u>
FUND BALANCE:				
Beginning of year			<u>3,226,013</u>	
End of year			<u>\$ 3,491,133</u>	

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting Unit's proportion of net pension liability (%)	0.18838%	0.18798%	0.18765%	0.18431%
Reporting Unit's proportionate share of net pension liability	\$ 48,817,380	\$ 46,898,384	\$ 45,833,590	\$ 40,596,519
Reporting Unit's covered-employee payroll	\$ 15,765,144	\$ 15,815,358	\$ 15,620,996	\$ 15,633,151
Reporting Unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	309.65%	296.54%	293.41%	259.68%
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	64.21%	63.01%	62.92%	66.15%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, The District presents information for those years for which information is available.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 4,897,808	\$ 4,958,290	\$ 4,726,864	\$ 5,041,227
Contributions in relation to statutorily required contributions	<u>4,897,808</u>	<u>4,958,290</u>	<u>4,726,864</u>	<u>5,041,227</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting Unit's covered-employee payroll	\$ 15,770,495	\$ 15,748,557	\$ 15,273,063	\$ 16,280,794
Contributions as a percentage of covered-employee payroll	31.06%	31.48%	30.95%	30.96%

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

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

	2017
Reporting Unit's proportion of net OPEB liability (%)	0.18814%
Reporting Unit's proportionate share of net OPEB liability	\$ 16,660,701
Reporting Unit's covered-employee payroll	\$ 15,765,144
Reporting Unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	105.68%
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)	36.39%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, The District presents information for those years for which information is available.

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

	2018
Statutorily required contributions	\$ 1,374,902
Contributions in relation to statutorily required contributions	1,374,902
Contribution deficiency (excess)	\$ -
Reporting Unit's covered-employee payroll	\$ 15,770,495
Contributions as a percentage of covered-employee payroll	8.72%

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

KENOWA HILLS PUBLIC SCHOOLS
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
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.

ADDITIONAL SUPPLEMENTARY INFORMATION

**KENOWA HILLS PUBLIC SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2018**

	<u>Special revenue</u>		<u>Capital projects</u>	<u>Total nonmajor funds</u>
	<u>Food service</u>	<u>Debt service</u>		
ASSETS:				
Cash and cash equivalents	\$ 196,987	\$ 4,320,430	\$ 276,830	\$ 4,794,247
Investments	-	519,546	-	519,546
Accounts receivable	552	-	-	552
Intergovernmental	36,915	-	-	36,915
Due from other funds	-	-	142,000	142,000
Due from student activities	18	-	-	18
Prepays	5,460	-	-	5,460
Inventories	12,837	-	-	12,837
TOTAL ASSETS	<u>\$ 252,769</u>	<u>\$ 4,839,976</u>	<u>\$ 418,830</u>	<u>\$ 5,511,575</u>
LIABILITIES:				
Accounts payable	\$ 3,206	\$ -	\$ -	\$ 3,206
Accrued salaries and related items	3,664	-	-	3,664
Accrued retirement	317	-	-	317
Due to other funds	72,897	-	-	72,897
Unearned revenue	19,343	-	-	19,343
TOTAL LIABILITIES	<u>99,427</u>	<u>-</u>	<u>-</u>	<u>99,427</u>
FUND BALANCES:				
Nonspendable:				
Inventories	12,837	-	-	12,837
Prepays	5,460	-	-	5,460
Restricted for:				
Debt service	-	4,839,976	-	4,839,976
Food service	135,045	-	-	135,045
Assigned for:				
Capital projects	-	-	418,830	418,830
TOTAL FUND BALANCES	<u>153,342</u>	<u>4,839,976</u>	<u>418,830</u>	<u>5,412,148</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 252,769</u>	<u>\$ 4,839,976</u>	<u>\$ 418,830</u>	<u>\$ 5,511,575</u>

**KENOWA HILLS PUBLIC SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2018**

	<u>Special revenue</u>			<u>Total nonmajor funds</u>
	<u>Food service</u>	<u>Debt service</u>	<u>Capital projects</u>	
REVENUES:				
Local sources:				
Property taxes	\$ -	\$ 4,936,713	\$ -	\$ 4,936,713
Investment earnings	2,358	30,581	1,276	34,215
Food sales	365,882	-	-	365,882
Insurance refunds	-	-	1,191,096	1,191,096
Other	-	144,027	39,737	183,764
Total local sources	<u>368,240</u>	<u>5,111,321</u>	<u>1,232,109</u>	<u>6,711,670</u>
State sources	51,187	129,894	-	181,081
Federal sources	946,487	586,525	-	1,533,012
Total revenues	<u>1,365,914</u>	<u>5,827,740</u>	<u>1,232,109</u>	<u>8,425,763</u>
EXPENDITURES:				
Food service activities	1,246,697	-	-	1,246,697
Capital outlay	-	-	1,401,836	1,401,836
Debt service:				
Principal repayment	-	2,630,000	-	2,630,000
Interest expense	-	2,066,088	-	2,066,088
Other expense	-	13,712	-	13,712
Total expenditures	<u>1,246,697</u>	<u>4,709,800</u>	<u>1,401,836</u>	<u>7,358,333</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>119,217</u>	<u>1,117,940</u>	<u>(169,727)</u>	<u>1,067,430</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	66,654	142,000	208,654
Transfers out	(59,071)	(66,654)	-	(125,725)
NET CHANGE IN FUND BALANCES	<u>60,146</u>	<u>1,117,940</u>	<u>(27,727)</u>	<u>1,150,359</u>
FUND BALANCES:				
Beginning of year	93,196	3,722,036	446,557	4,261,789
End of year	<u>\$ 153,342</u>	<u>\$ 4,839,976</u>	<u>\$ 418,830</u>	<u>\$ 5,412,148</u>

**KENOWA HILLS PUBLIC SCHOOLS
 COMBINING BALANCE SHEET
 DEBT SERVICE FUNDS
 JUNE 30, 2018**

	2010		2015		2016		Total debt
	Building and		Refunding		Building and		service
	site				site		
	<u> </u>				<u> </u>		<u> </u>
ASSETS:							
Cash and cash equivalents	\$ 3,399,926	\$	649,323	\$	271,181	\$	4,320,430
Investments	102,818		293,907		122,821		519,546
TOTAL ASSETS	<u>\$ 3,502,744</u>	<u>\$</u>	<u>943,230</u>	<u>\$</u>	<u>394,002</u>	<u>\$</u>	<u>4,839,976</u>
FUND BALANCES:							
Restricted for debt service	\$ 3,502,744	\$	943,230	\$	394,002	\$	4,839,976
TOTAL FUND BALANCES	<u>\$ 3,502,744</u>	<u>\$</u>	<u>943,230</u>	<u>\$</u>	<u>394,002</u>	<u>\$</u>	<u>4,839,976</u>

**KENOWA HILLS PUBLIC SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2018**

	2005 Refunding	2010 Buses	2010 Building and site	2015 Refunding	2016 Building and site	Total debt service
REVENUES:						
Local sources:						
Property taxes	\$ -	\$ -	\$ 1,007,493	\$ 1,645,570	\$ 2,283,650	\$ 4,936,713
Interest	-	-	6,120	14,736	9,725	30,581
Other	-	15	29,570	48,335	66,107	144,027
Total local revenue	-	15	1,043,183	1,708,641	2,359,482	5,111,321
State sources	-	-	26,509	43,298	60,087	129,894
Federal sources	-	-	586,525	-	-	586,525
Total revenues	-	15	1,656,217	1,751,939	2,419,569	5,827,740
EXPENDITURES:						
Principal repayments	-	-	-	1,165,000	1,465,000	2,630,000
Interest expense	-	-	757,988	612,500	695,600	2,066,088
Other	2,663	239	6,122	4,188	500	13,712
Total expenditures	2,663	239	764,110	1,781,688	2,161,100	4,709,800
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,663)	(224)	892,107	(29,749)	258,469	1,117,940
OTHER FINANCING SOURCES (USES):						
Transfers in	147	-	-	66,507	-	66,654
Transfers out	-	(66,654)	-	-	-	(66,654)
Total other financing sources (uses)	147	(66,654)	-	66,507	-	-
NET CHANGE IN FUND BALANCES	(2,516)	(66,878)	892,107	36,758	258,469	1,117,940
FUND BALANCES:						
Beginning of year	2,516	66,878	2,610,637	906,472	135,533	3,722,036
End of year	\$ -	\$ -	\$ 3,502,744	\$ 943,230	\$ 394,002	\$ 4,839,976

**KENOWA HILLS PUBLIC SCHOOLS
 BONDED DEBT - PRINCIPAL AND INTEREST REQUIREMENTS
 JUNE 30, 2018**

2010 School Building and Site Bonds, Series A

Fiscal year	Interest rate	Principal due May 1,	Interest due		Total due annually
			May 1	November 1	
2019	3.550%	\$ -	\$ 64,503	\$ 64,503	\$ 129,006
2020	3.550%	-	64,503	64,503	129,006
2021	3.550%	-	64,503	64,503	129,006
2022	3.550%	-	64,503	64,503	129,006
2023	3.550%	-	64,503	64,503	129,006
2024	3.550%	-	64,503	64,503	129,006
2025	3.550%	-	64,503	64,503	129,006
2026	6.375%	11,890,000	64,503	64,503	12,019,006
Total 2010 bonded debt		<u>\$ 11,890,000</u>	<u>\$ 516,024</u>	<u>\$ 516,024</u>	<u>\$ 12,922,048</u>

The above bonds dated May 4, 2010 were issued for the purpose of erecting, furnishing and equipping additions to and remodeling, refurbishing and re-equipping school district buildings; acquiring and installing educational technology system improvements and developing and improving playgrounds, play field, athletic fields and facilities and sites. The amount of the original bond issue was \$13,815,000.

**KENOWA HILLS PUBLIC SCHOOLS
 BONDED DEBT - PRINCIPAL AND INTEREST REQUIREMENTS
 JUNE 30, 2018**

2015 Refunding Bonds

Fiscal year	Interest rate	Principal due May 1,	Interest due		Total due annually
			May 1	November 1	
2019	5.000%	\$ 1,225,000	\$ 277,125	\$ 277,125	\$ 1,779,250
2020	5.000%	1,285,000	246,500	246,500	1,778,000
2021	5.000%	1,355,000	214,375	214,375	1,783,750
2022	5.000%	1,415,000	180,500	180,500	1,776,000
2023	5.000%	1,490,000	145,125	145,125	1,780,250
2024	5.000%	1,560,000	107,875	107,875	1,775,750
2025	5.000%	1,560,000	68,875	68,875	1,697,750
2026	5.000%	1,195,000	29,875	29,875	1,254,750
Total 2015 bonded debt		<u>\$ 11,085,000</u>	<u>\$ 1,270,250</u>	<u>\$ 1,270,250</u>	<u>\$ 13,625,500</u>

The above bonds dated February 4, 2015 were issued for the purpose of refunding a portion of the School District's outstanding 2005 refunding bonds. The amount of the original bond issue was \$14,425,000

**KENOWA HILLS PUBLIC SCHOOLS
BONDED DEBT - PRINCIPAL AND INTEREST REQUIREMENTS
JUNE 30, 2018**

2016 School Building and Site Bonds, Series I

Fiscal year	Interest rate	Principal due May 1,	Interest due		Total due annually
			May 1	November 1	
2019	-	\$ -	\$ 318,500	\$ 318,500	\$ 637,000
2020	5.000%	50,000	318,500	318,500	687,000
2021	5.000%	100,000	317,250	317,250	734,500
2022	5.000%	100,000	314,750	314,750	729,500
2023	5.000%	125,000	312,250	312,250	749,500
2024	5.000%	250,000	309,125	309,125	868,250
2025	5.000%	375,000	302,875	302,875	980,750
2026	5.000%	400,000	293,500	293,500	987,000
2027	5.000%	540,000	283,500	283,500	1,107,000
2028	5.000%	600,000	270,000	270,000	1,140,000
2029	5.000%	600,000	255,000	255,000	1,110,000
2030	5.000%	600,000	240,000	240,000	1,080,000
2031	5.000%	600,000	225,000	225,000	1,050,000
2032	5.000%	600,000	210,000	210,000	1,020,000
2033	5.000%	600,000	195,000	195,000	990,000
2034	5.000%	600,000	180,000	180,000	960,000
2035	5.000%	600,000	165,000	165,000	930,000
2036	5.000%	600,000	150,000	150,000	900,000
2037	5.000%	600,000	135,000	135,000	870,000
2038	5.000%	600,000	120,000	120,000	840,000
2039	5.000%	600,000	105,000	105,000	810,000
2040	5.000%	600,000	90,000	90,000	780,000
2041	5.000%	600,000	75,000	75,000	750,000
2042	5.000%	600,000	60,000	60,000	720,000
2043	5.000%	600,000	45,000	45,000	690,000
2044	5.000%	600,000	30,000	30,000	660,000
2045	5.000%	600,000	15,000	15,000	630,000
Total 2016 bonded debt		<u>\$ 12,740,000</u>	<u>\$ 5,335,250</u>	<u>\$ 5,335,250</u>	<u>\$ 23,410,500</u>

The above bonds dated May 3, 2016 were issued for the purpose of erecting, furnishing and equipping additions to and remodeling, refurbishing and re-equipping school district buildings; acquiring and installing educational technology system improvements and developing and improving playgrounds, play field, athletic fields and facilities and sites. The amount of the original bond issue was \$15,490,000.

**KENOWA HILLS PUBLIC SCHOOLS
 BONDED DEBT - PRINCIPAL AND INTEREST REQUIREMENTS
 JUNE 30, 2018**

2018 School Building and Site Bonds, Series II

Fiscal year	Interest	Principal due		Interest due		Total due annually
		May 1,	November 1,	May 1	November 1	
2019	3.000%	\$ -	\$ 550,000	\$ 682,931	\$ 840,937	\$ 2,073,868
2020	4.000%	-	215,000	678,631	682,931	1,576,563
2021	4.000%	-	255,000	673,531	678,631	1,607,163
2022	4.000%	-	365,000	666,231	673,531	1,704,763
2023	4.000%	-	450,000	657,231	666,231	1,773,463
2024	4.000%	-	445,000	648,331	657,231	1,750,563
2025	4.000%	-	500,000	638,331	648,331	1,786,663
2026	5.000%	-	1,010,000	613,081	638,331	2,261,413
2027	5.000%	500,000	2,340,000	554,581	613,081	4,007,663
2028	5.000%	500,000	2,445,000	483,456	544,581	3,973,038
2029	5.000%	530,000	2,590,000	408,706	473,456	4,002,162
2030	4.000%	545,000	2,725,000	340,956	395,456	4,006,413
2031	4.000%	625,000	2,775,000	277,281	332,781	4,010,063
2032	3.250%	740,000	2,800,000	223,765	267,516	4,031,281
2033	3.375%	860,000	2,825,000	165,834	211,741	4,062,575
2034	3.375%	120,000	2,925,000	101,963	151,322	3,298,284
2035	3.375%	-	900,000	84,750	99,938	1,084,688
2036	3.500%	-	900,000	69,000	84,750	1,053,750
2037	3.500%	-	900,000	53,250	69,000	1,022,250
2038	3.500%	-	900,000	37,500	53,250	990,750
2039	3.500%	-	900,000	21,750	37,500	959,250
2040	3.625%	-	200,000	18,125	21,750	239,875
2041	3.625%	-	200,000	14,500	18,125	232,625
2042	3.625%	-	200,000	10,875	14,500	225,375
2043	3.625%	-	200,000	7,250	10,875	218,125
2044	3.625%	-	200,000	3,625	7,250	210,875
2045	3.625%	-	200,000	-	3,625	203,625
Total 2018 bonded debt		\$ 4,420,000	\$ 30,915,000	\$ 8,135,468	\$ 8,896,653	\$ 52,367,121

The above bonds dated March 22, 2018 were issued for the purpose of erecting, furnishing and equipping additions to and remodeling, refurbishing and re-equipping school district buildings; acquiring and installing educational technology system improvements and developing and improving playgrounds, play field, athletic fields and facilities and sites. The amount of the original bond issue was \$35,335,000.

**KENOWA HILLS PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (unearned) revenue 6/30/2017	Prior year expenditures (memorandum only)	Current year expenditures	Current year receipts (cash basis)	Accrued (unearned) revenue 6/30/2018
<u>U.S. Department of Agriculture:</u>								
Passed through Michigan Department of Education:								
Child nutrition cluster:								
Non-cash assistance (donated foods):								
National School Lunch Program - non bonus	10.555		\$ 91,110	\$ -	\$ 98,425	\$ 91,110	\$ 91,110	\$ -
Cash assistance:								
National School Lunch Program	10.555	171960 181960	680,000 548,957	18,922 -	601,349 -	78,651 548,957	97,573 531,894	- 17,063
			<u>1,228,957</u>	<u>18,922</u>	<u>601,349</u>	<u>627,608</u>	<u>629,467</u>	<u>17,063</u>
National School Lunch Program Subtotal			<u>1,320,067</u>	<u>18,922</u>	<u>699,774</u>	<u>718,718</u>	<u>720,577</u>	<u>17,063</u>
School Breakfast Program	10.553	171970 181970	228,990 191,800	7,460 -	202,529 -	26,461 191,800	33,921 184,530	- 7,270
National School Breakfast Program Subtotal			<u>420,790</u>	<u>7,460</u>	<u>202,529</u>	<u>218,261</u>	<u>218,451</u>	<u>7,270</u>
Summer Food Service Program	10.559	170900 171900	8,223 9,508	2,270 -	8,223 -	- 9,508	2,270 6,874	- 2,634
Summer Food Service Program Subtotal			<u>17,731</u>	<u>2,270</u>	<u>8,223</u>	<u>9,508</u>	<u>9,144</u>	<u>2,634</u>
Total Child Nutrition Cluster			<u>1,758,588</u>	<u>28,652</u>	<u>910,526</u>	<u>946,487</u>	<u>948,172</u>	<u>26,967</u>
Total U.S. Department of Agriculture			<u>1,758,588</u>	<u>28,652</u>	<u>910,526</u>	<u>946,487</u>	<u>948,172</u>	<u>26,967</u>
<u>U.S. Department of Education:</u>								
Passed through Michigan Department of Education:								
Title I Part A	84.010	171530 1617 181530 1718	727,032 920,716	49,225 -	509,004 -	21 801,788	49,246 687,901	- 113,887
Total Title I Part A			<u>1,647,748</u>	<u>49,225</u>	<u>509,004</u>	<u>801,809</u>	<u>737,147</u>	<u>113,887</u>
Title I Part C	84.011	171890 1617 181890 1718	74,923 133,684	1,310 -	68,134 -	- 57,455	1,310 56,869	- 586
Total Title I Part C			<u>208,607</u>	<u>1,310</u>	<u>68,134</u>	<u>57,455</u>	<u>58,179</u>	<u>586</u>

The accompanying notes are an integral part of this schedule.

**KENOWA HILLS PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (unearned) revenue 6/30/2017	Prior year expenditures (memorandum only)	Current year expenditures	Current year receipts (cash basis)	Accrued (unearned) revenue 6/30/2018
U.S. Department of Education (Concluded):								
Passed through Michigan Department of Education (Concluded):								
Title II Part A	84.367	170520 1617 180520 1718	\$ 73,296 151,082	\$ 109 -	\$ 72,659 -	\$ 282 100,899	\$ 391 100,899	\$ - -
Total Title II Part A			<u>224,378</u>	<u>109</u>	<u>72,659</u>	<u>101,181</u>	<u>101,290</u>	<u>-</u>
Title III, Limited English	84.365	180580 1718	22,325	-	-	22,325	-	22,325
Title III, Immigrant Students	84.365A	180570 1718	2,396	-	-	2,372	2,372	-
Total Title III			<u>24,721</u>	<u>-</u>	<u>-</u>	<u>24,697</u>	<u>2,372</u>	<u>22,325</u>
Title IV, Part A Student Support and Enrichment	84.424	180750 1718	6,939	-	-	6,939	6,939	-
Total Passed through Michigan Department of Education			<u>2,112,393</u>	<u>50,644</u>	<u>649,797</u>	<u>992,081</u>	<u>905,927</u>	<u>136,798</u>
Passed through Kent Intermediate School District:								
IDEA Cluster:								
IDEA Preschool	84.173	170460 1617 180460 1718	26,815 29,038	5,905 -	26,815 -	- 29,038	5,905 23,593	- 5,445
Total IDEA Preschool			<u>55,853</u>	<u>5,905</u>	<u>26,815</u>	<u>29,038</u>	<u>29,498</u>	<u>5,445</u>
IDEA Flowthrough	84.027	170450-1617 180450-1718	772,835 797,536	169,665 -	772,835 -	- 797,536	169,665 683,393	- 114,143
Total IDEA Flowthrough			<u>1,570,371</u>	<u>169,665</u>	<u>772,835</u>	<u>797,536</u>	<u>853,058</u>	<u>114,143</u>
Total IDEA Cluster			<u>1,626,224</u>	<u>175,570</u>	<u>799,650</u>	<u>826,574</u>	<u>882,556</u>	<u>119,588</u>
Total U.S. Department of Education			<u>3,738,617</u>	<u>226,214</u>	<u>1,449,447</u>	<u>1,818,655</u>	<u>1,788,483</u>	<u>256,386</u>
U.S. Department of Health and Human Services:								
Passed through Kent Intermediate School District:								
Medicaid Outreach and transportation	93.778	2017 2018	5,544 4,631	5,544 -	5,544 -	- 4,631	5,544 -	- 4,631
Total Medicaid Outreach Transportation			<u>10,175</u>	<u>5,544</u>	<u>5,544</u>	<u>4,631</u>	<u>5,544</u>	<u>4,631</u>
Total U.S. Department of Health and Human Services			<u>1,636,399</u>	<u>181,114</u>	<u>805,194</u>	<u>831,205</u>	<u>888,100</u>	<u>124,219</u>
Total Federal Assistance			<u>\$ 5,507,380</u>	<u>\$ 260,410</u>	<u>\$ 2,365,517</u>	<u>\$ 2,769,773</u>	<u>\$ 2,742,199</u>	<u>\$ 287,984</u>

The accompanying notes are an integral part of this schedule.

**KENOWA HILLS PUBLIC SCHOOLS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

1. Basis of Presentation - The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Kenowa Hills Public Schools under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Kenowa Hills Public Schools, it is not intended to and does not present the financial position or changes in net position of Kenowa Hills Public Schools.
2. Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. Kenowa Hills Public Schools has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.
3. Management has utilized the Cash Management System (CMS) and the Grant Auditor Report in preparing the schedule of expenditures of federal awards. The District did not pass through any funds.
4. Federal expenditures are reported as revenue in the following funds in the financial statements: □

General fund	\$ 1,823,286
Other nonmajor governmental fund	1,533,012
	3,356,298
Federal tax credits	(586,525)
Total federal expenditures per schedule of expenditures of federal awards	\$ 2,769,773

Federal tax credit payments received on Qualified School Construction Bonds are not subject to the Single Audit Act.

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

To the Board of Education
Kenowa Hills Public Schools

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 Kenowa Hills Public Schools as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Kenowa Hills Public Schools' basic financial statements and have issued our report thereon dated October 22, 2018.

Internal Control Over Financial Reporting

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

Maney Costeiran PC

October 22, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Education
Kenowa Hills Public Schools

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our unmodified opinion on compliance for major federal programs. However, our audit does not provide a legal determination of Kenowa Hills Public Schools' compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Maney Costeiran PC

October 22, 2018

**KENOWA HILLS PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

➤ Material weakness(es) identified ? Yes X No

➤ Significant deficiency(ies) identified that are not considered to be material weakness(es) ? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

➤ Material weakness(es) identified: Yes X No

➤ Significant deficiency(ies) identified that are not considered to be material weakness(es) ? Yes X None reported

Type of auditor's report issued on compliance for major programs: *Unmodified*

Any audit findings that are required to be reported in accordance with Title 2 CFR Section 200.516(a)? Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553, 10.555, & 10.559 84.010	Child Nutrition Cluster Title I, Part A

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X Yes No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Question Costs

None

**KENOWA HILLS PUBLIC SCHOOLS
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018**

There were no audit findings in the previous two years.

October 22, 2018

To the Board of Education
Kenowa Hills Public Schools

We have audited the financial statements of Kenowa Hills Public Schools for the year ended June 30, 2018, and have issued our report thereon dated October 22, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards, *Government Auditing Standards* and OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Kenowa Hills Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether Kenowa Hills Public Schools' financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also in accordance with the Uniform Guidance, we examined, on a test basis, evidence about Kenowa Hills Public Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Kenowa Hills Public Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Kenowa Hills Public Schools' compliance with those requirements.

Our responsibility for the supplementary information accompanying the financial statement, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

1. Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Kenowa Hills Public Schools are described in Note 1 to the financial statements. During 2018 the District implemented Governmental Accounting Standard No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The application of existing policies was not changed during 2018. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 financial statements were:

Estimates have been used to calculate the net pension liability and the net other postemployment benefit liability.

Management's estimate in calculating the liability for employee compensated absences:

The estimated liability is approximately \$512,058. We evaluated the key factors and assumptions used to develop the balance of employee compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's determination of the estimated life span of the capital assets:

We evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole. In addition, certain amounts included in capital assets have been estimated based on an outside appraisal company.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

2. *Difficulties Encountered in Performing the Audit*

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

3. *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. We did not detect any corrected or uncorrected misstatements.

4. *Disagreements with Management*

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

5. *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 22, 2018.

6. *Management Consultations with Other Independent Accountants*

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

7. *Other Audit Findings or Issues*

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

8. *Other Matters*

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

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

A separate management letter was not issued.

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

Very truly yours,

Manes Costeiran PC