

DELTON KELLOGG SCHOOLS
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
JUNE 30, 2018

Delton Kellogg Schools

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INDEPENDENT AUDITOR'S REPORT



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Report on Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Delton Kellogg 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 a Matter

As described in Note 15 of the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2018.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 Delton Kellogg Schools' basic financial statements. The additional supplementary information, as identified in the table of contents, and schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) are presented for the purpose 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 information has been subjected to the auditing procedures applied in the audits 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 29, 2018, on our consideration of the Delton Kellogg School's 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 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 internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Delton Kellogg School's internal control over financial reporting and compliance.

October 29, 2018

Norman E. Paulson, P.C.

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2018

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

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Delton Kellogg Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, 2013 Capital Projects Fund, Debt Service Fund and Food Service Fund. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

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

Basic Financial Statements

District-wide Financial Statement *Fund Financial Statements*

Notes to the Basic Financial Statement

(Required Supplemental Information)

Budgetary Information for the General Fund and Major Special Revenue Funds

Other Supplemental Information

Reporting the School District as a whole - District-wide Financial Statements

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

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED JUNE 30, 2018

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

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

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

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

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

DELTON KELLOGG SCHOOLS

**ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED JUNE 30, 2018**

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

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

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table I provides a summary of the School District's net position as of June 30, 2018 and 2017:

TABLE I	June 30,	
	2018	2017
Assets		
Current and other assets	\$ 5,821,028	\$ 6,664,543
Capital assets - Net of accumulated depreciation	20,357,886	20,551,759
Total assets	26,178,914	27,216,302
Deferred outflows of resources	3,795,441	1,747,200
Liabilities		
Current liabilities	5,640,357	5,865,000
Long-term liabilities	35,943,238	30,646,503
Total liabilities	41,583,595	36,511,503
Deferred inflows of resources	1,890,475	1,221,894
Net Position		
Invested in property and equipment - net of related debt	6,137,073	4,559,386
Restricted for debt service	407,525	453,067
Restricted for food service	197,549	206,416
Unrestricted (deficit)	(20,241,862)	(13,988,764)
Total net position (deficit)	\$ (13,499,715)	\$ (8,769,895)

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED JUNE 30, 2018

The above analysis focuses on the net position (see Table I). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was \$(13,499,715) (deficit) at June 30, 2018. Capital assets, net of related debt totaling \$6,137,073 compares the original cost, less depreciation of the School District's capital assets to long-term debt. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net position for day-to-day operations. The remaining amount of net position \$(20,241,862) (deficit) was unrestricted.

The \$(20,241,862) (deficit) in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal years ended June 30, 2018 and 2017.

TABLE 2

	Year Ended June 30,	
	2018	2017
Revenue		
Program revenue:		
Charges for services	\$ 609,878	\$ 542,497
Grants and catagoricals	2,955,680	2,328,166
General revenue:		
Property taxes	4,973,053	4,934,125
State foundation allowance	7,037,915	7,018,201
Interest earnings and other	88,714	75,744
Total revenue	15,665,240	14,898,733
Function/Program Expenses		
Instruction	7,661,727	6,825,989
Support services	3,902,643	3,700,460
Community services	75,658	75,577
Food services	576,783	593,567
Athletics	378,803	381,923
Interest on long-term debt	552,352	604,119
Depreciation (unallocated)	1,240,676	1,248,756
Total expenses	14,388,642	13,430,391
Change in net position	\$ 1,276,598	\$ 1,468,342

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED JUNE 30, 2018

As reported in the statement of activities, the cost of all governmental activities this year was \$14,388,642. Certain activities were partially funded from those who benefited from the programs \$609,878 or by other governments and organizations that subsidized certain programs with grants and categoricals \$2,955,680. We paid for the remaining "public benefit" portion of our governmental activities with \$4,973,053 in taxes, \$7,037,915 in State foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net position of \$1,276,598. Key reasons for the change in net position was capitalizable expenditures and the repayment of bond principal. The change in net position differs from the change in fund balance and a reconciliation appears on page 16.

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

The School District's Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$2,063,526, which is a decrease of \$636,687 from last year. In the General Fund, our primary operating fund, the fund balance decreased \$60,235 to \$913,056. The General Fund fund balance reflects nonspendable for prepaid assets - \$14,001 and inventories - \$19,880; and unassigned of \$879,175.

In the Capital Projects Fund the fund balance decreased from \$967,607 to \$75,396. This was the result of a voter approved \$14,750,000 bond issue. The purpose of the Capital Projects Fund is to continue to spend the fund balance to complete the voter approved purpose of purchasing school buses; additions to school buildings; remodeling, furnishing and refurnishing, and equipping and reequipping school buildings; acquiring and installing educational technology improvements to school buildings; and developing and improving playgrounds, play fields, and athletic fields and facilities and sites; and paying the costs of issuing Bonds.

In the Debt Service Fund the fund balance decreased \$45,374 to \$407,525. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Fund fund balance is reserved since it can only be used to pay debt service obligations.

In the Food Service Fund the fund balance decreased \$8,867 to \$197,549.

The Public Improvement Fund balance increased by \$370,000 which was a transfer from the General Fund. The Public Improvement Fund's fund balance is available to dedicate funds for the purpose of acquiring, constructing, extending, altering, repairing, and equipping public improvements or buildings.

DELTON KELLOGG SCHOOLS

**ADMINISTRATION'S DISCUSSION AND ANALYSIS - (CONTINUED)
YEAR ENDED JUNE 30, 2018**

General Fund Budgetary Highlights

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

Budgeted revenues were increased by \$1,067,144 to better reflect adjustments to state per student foundation funding, adjustments to categorical funding and various grant programs. Actual revenues were within \$263,122 (2.1 percent) of the final budgeted revenues.

Budgeted expenditures were increased by \$1,000,298 to better reflect actual cost of operations. Actual expenditures ended the year under the final budget by \$711,999 (5.7 percent).

Capital Asset and Debt Administration

Capital Assets

At June 30, 2018, the School District had \$45,627,182 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net increase (including additions and disposals) of \$946,571, or 2.1 percent, from last year. Capital asset additions in the amount of \$898,400 were funded from the Capital Projects Fund.

	<u>2018</u>	<u>2017</u>
Land	\$ 841,425	\$ 841,425
Buildings and improvements	40,073,451	40,073,451
Buses and other vehicles	1,404,175	1,357,024
Furniture and equipment	2,136,032	2,128,317
Construction in process	<u>1,172,099</u>	<u>280,394</u>
 Total capital assets	 45,627,182	 44,680,611
 Less accumulated depreciation	 <u>25,269,296</u>	 <u>24,128,852</u>
 Net capital assets	 <u>\$ 20,357,886</u>	 <u>\$ 20,551,759</u>

DELTON KELLOGG SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED JUNE 30, 2018

Debt

At the end of this year, the School District had \$14,236,229 in bonds outstanding versus \$16,038,149 in the previous year - a decrease of \$1,801,920. The School District paid the scheduled principal amounts of \$1,740,000.

	<u>2018</u>	<u>2017</u>
General Obligation Bonds, net	<u>\$ 14,236,229</u>	<u>\$ 16,038,149</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt is significantly below the statutorily imposed limit.

Factors Bearing on the District's Future

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

The 2018-2019 foundation allowance is expected to increase \$240 per student from \$7,631 to \$7,871. The foundation allowance represents 55% of the total District revenue.

Student count is projected to increase slowly for the next five years. However, the uncertain economy in the State of Michigan continues to impact the number of enrolled students.

Continued projected increases in retirement funding costs and health insurance costs are a concern for the School District.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Department, 327 North Grove Street, Delton, Michigan 49046.

DELTON KELLOGG SCHOOLS

**STATEMENT OF NET POSITION
JUNE 30, 2018**

<u>ASSETS</u>	<u>Governmental Activities</u>
Current Assets:	
Cash and cash equivalents	\$ 3,503,506
Investments	280,198
Accounts receivable	203,258
Due from other governmental units	1,796,569
Prepaid expenses	14,001
Inventories	<u>23,496</u>
Total current assets	5,821,028
Noncurrent Assets:	
Capital assets, net of accumulated depreciation	<u>20,357,886</u>
Total assets	26,178,914
Deferred Outflows of Resources –	
Deferred charges from bond refundings	15,416
Deferred outflows for pension obligation	3,358,534
Deferred outflows for postemployment benefits	<u>421,491</u>
 <u>LIABILITIES</u>	
Current Liabilities:	
Short-term note payable	2,100,000
Accounts payable	595,165
Accrued payroll and related benefits	688,847
Accrued interest	123,860
Unearned revenue	339,680
Bonds payable, due within one year	<u>1,792,805</u>
Total current liabilities	5,640,357
Noncurrent Liabilities:	
Bonds payable – net	12,443,424
Net pension liability	17,506,264
Net postemployment benefits liability	<u>5,993,550</u>
Total noncurrent liabilities	<u>35,943,238</u>
Total liabilities	41,583,595
Deferred inflow of resources for pension obligation	1,687,849
Deferred inflows of resources for postemployment benefits	<u>202,626</u>
 <u>NET POSITION</u>	
Invested in capital assets, net of related debt	6,137,073
Restricted for debt service	407,525
Restricted for food service	197,549
Unrestricted (deficit)	<u>(20,241,862)</u>
Total net position (deficit)	<u>\$ (13,499,715)</u>

See accompanying notes to financial statements

DELTON KELLOGG SCHOOLS

**STATEMENT OF ACTIVITIES
JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Contributions
Governmental activities:				
Instruction	\$ 7,661,727	\$ 257,341	\$ 2,111,660	\$ (5,292,726)
Support services	3,902,643	-	411,441	(3,491,202)
Community services	75,658	77,895	-	2,237
Food services	576,783	195,240	430,380	48,837
Athletics	378,803	79,402	-	(299,401)
Interest on long-term debt	552,352	-	2,199	(550,153)
Depreciation (unallocated)	1,240,676	-	-	(1,240,676)
Total governmental activities	\$ 14,388,642	\$ 609,878	\$ 2,955,680	(10,823,084)
General revenues:				
Taxes				
Property taxes, levied for general operations				2,687,215
Property taxes, levied for debt service				2,285,838
State aid not restricted to specific purposes				7,037,915
Interest and investment earnings				6,539
Other				82,175
Total general revenues				12,099,682
Change in Net Position				1,276,598
Net Position - Beginning of year, as restated				(14,776,313)
Net Position - End of year				\$ (13,499,715)

See accompanying notes to financial statements

DELTON KELLOGG SCHOOLS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018**

<u>ASSETS</u>	<u>General</u>	<u>2013 Capital Projects</u>	<u>Debt Service</u>
Cash and cash equivalents	\$ 3,053,004	\$ 936	\$ 408,243
Investments	-	280,198	-
Accounts receivable	203,258	-	-
Due from other governmental units	1,789,242	-	-
Due from other funds	-	19,932	-
Prepaid expenditures	14,001	-	-
Inventories	<u>19,880</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 5,079,385</u>	<u>\$ 301,066</u>	<u>\$ 408,243</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Short-term note payable	\$ 2,100,000	\$ -	\$ -
Accounts payable	223,384	225,670	718
Accrued payroll	511,091	-	-
Accrued benefits	166,187	-	-
Accrued interest	33,810	-	-
Due to other funds	657,262	-	-
Due to other governmental units	134,915	-	-
Unearned revenue	<u>339,680</u>	<u>-</u>	<u>-</u>
Total liabilities	4,166,329	225,670	718
Fund Balances:			
Nonspendable:			
Prepaid assets	14,001	-	-
Inventories	19,880	-	-
Restricted:			
Capital Projects	-	75,396	-
Debt service	-	-	407,525
Food service	-	-	-
Committed:			
Capital improvements	-	-	-
Unassigned	<u>879,175</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>913,056</u>	<u>75,396</u>	<u>407,525</u>
Total liabilities and fund balances	<u>\$ 5,079,385</u>	<u>\$ 301,066</u>	<u>\$ 408,243</u>

See accompanying notes to financial statements

<u>Food Service</u>	<u>Public Improvement</u>	<u>Total</u>
\$ 41,323	\$ -	\$ 3,503,506
-	-	280,198
-	-	203,258
7,327	-	1,796,569
167,330	470,000	657,262
-	-	14,001
<u>3,616</u>	<u>-</u>	<u>23,496</u>
<u>\$ 219,596</u>	<u>\$ 470,000</u>	<u>\$ 6,478,290</u>

\$ -	\$ -	\$ 2,100,000
10,478	-	460,250
8,685	-	519,776
2,884	-	169,071
-	-	33,810
-	-	657,262
-	-	134,915
<u>-</u>	<u>-</u>	<u>339,680</u>

22,047 - 4,414,764

-	-	14,001
3,616	-	23,496
-	-	75,396
-	-	407,525
193,933	-	193,933
-	470,000	470,000
<u>-</u>	<u>-</u>	<u>879,175</u>
<u>197,549</u>	<u>470,000</u>	<u>2,063,526</u>
<u>\$ 219,596</u>	<u>\$ 470,000</u>	<u>\$ 6,478,290</u>

DELTON KELLOGG SCHOOLS

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total Fund Balances - Governmental Funds	\$ 2,063,526
Amounts reported for governmental activities in the statement of net position are different because:	
Deferred charges on bond refundings	15,416
Deferred outflows for pension obligation	3,358,534
Deferred outflows for postemployment benefits	421,491
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
The cost of the capital assets is	45,627,182
Accumulated depreciation is	<u>(25,269,296)</u>
Total	20,357,886
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable, net	(14,236,229)
Net pension liability	(17,506,264)
Net postemployment benefit liability	(5,993,550)
Accrued interest payable on long-term liabilities is not included as a liability in governmental activities	(90,050)
Deferred inflow of resources for pension obligation	(1,687,849)
Deferred inflow of resources for postemployment benefits	<u>(202,626)</u>
Net position of governmental activities	<u>\$ (13,499,715)</u>

See Notes to Financial Statements

DELTON KELLOGG SCHOOLS

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2018**

	<u>General</u>	<u>2013 Capital Projects</u>	<u>Debt Service</u>
Revenues:			
Local sources	\$ 3,375,248	\$ 6,189	\$ 2,286,070
State source	8,730,428	-	2,199
Federal sources	486,234	-	-
Interdistrict sources	<u>153,252</u>	<u>-</u>	<u>-</u>
Total revenues	12,745,162	6,189	2,288,269
Expenditures:			
Instruction	7,906,897	-	-
Supporting services	4,124,028	-	-
Community services	75,658	-	-
Food service	-	-	-
Athletics	378,803	-	-
Capital outlay	-	898,400	-
Debt service:			
Principal	-	-	1,740,000
Interest and other	<u>-</u>	<u>-</u>	<u>593,643</u>
Total expenditures	<u>12,485,386</u>	<u>898,400</u>	<u>2,333,643</u>
Excess (deficiency) of revenues over expenditures	259,776	(892,211)	(45,374)
Other financing sources (uses)			
Operating transfers in	49,989	-	-
Operating transfers out	<u>(370,000)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(320,011)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(60,235)	(892,211)	(45,374)
Fund balances, July 1	<u>973,291</u>	<u>967,607</u>	<u>452,899</u>
Fund balances, June 30	<u>\$ 913,056</u>	<u>\$ 75,396</u>	<u>\$ 407,525</u>

See Notes to Financial Statements

<u>Food Service</u>	<u>Public Improvement</u>	<u>Total</u>
\$ 191,699	\$ -	\$ 5,859,206
26,360	-	8,758,987
404,020	-	890,254
<u>3,541</u>	<u>-</u>	<u>156,793</u>
625,620	-	15,665,240
-	-	7,906,897
-	-	4,124,028
-	-	75,658
584,498	-	584,498
-	-	378,803
-	-	898,400
-	-	1,740,000
<u>-</u>	<u>-</u>	<u>593,643</u>
<u>584,498</u>	<u>-</u>	<u>16,301,927</u>
41,122	-	(636,687)
-	370,000	419,989
<u>(49,989)</u>	<u>-</u>	<u>(419,989)</u>
<u>(49,989)</u>	<u>370,000</u>	<u>-</u>
(8,867)	370,000	(636,687)
<u>206,416</u>	<u>100,000</u>	<u>2,700,213</u>
<u>\$ 197,549</u>	<u>\$ 470,000</u>	<u>\$ 2,063,526</u>

DELTON KELLOGG SCHOOLS

**GOVERNMENTAL FUNDS
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	\$ (636,687)
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.	
Net effect of disposals	-
Depreciation expense	(1,240,676)
Capital outlays	1,046,803
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid:	
Accrued interest payable beginning of the year	98,750
Accrued interest payable end of the year	(90,050)
Repayments of principal on long-term debt are expenditures in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	
Repayment of principal on long-term debt	1,740,000
Amortization of bond issue premium	83,000
Amortization of bond issue discount	(21,080)
Amortization of deferred amount on bond refunding	(30,360)
Change in deferred outflows of pension resources	1,657,110
Change in deferred outflows or postemployment benefits resources	106,041
Change in net pension obligation	(1,095,990)
Change in net postemployment benefits obligation	328,318
Change in deferred inflows of pension resources	(465,955)
Change in deferred inflows of postemployment benefits resources	<u>(202,626)</u>
Change in net position of Governmental Activities	<u>\$ 1,276,598</u>

See Notes to Financial Statements

DELTON KELLOGG SCHOOLS
FIDUCIARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2018

	<u>Student Activities Agency Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	<u>\$ 130,053</u>
<u>LIABILITIES</u>	
Due to student groups	<u>\$ 130,053</u>

See accompanying notes to financial statements

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Delton Kellogg Public Schools conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School Districts' reporting entity, and which organizations are legally separate, component units of the school district. Based on the application of the criteria, the district does not contain any component units.

District-Wide and Fund Financial Statements

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

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

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

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Amounts reported as program revenue include (1) charges to customer or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

The school district reports the following major governmental funds:

The General Fund is the school district's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The 2013 Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of funds specifically designated for acquiring school buses, buildings, equipment, technology, and for major remodeling and repairs. The fund is retained until the purpose for which the fund was created has been accomplished.

The Debt Service Fund is used to record tax, interest, other revenue for payment, principle, and other expenditures on the bond issues.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District is the Food Services Fund.

The Public Improvement Capital Projects Fund is used to account for resources specifically designed for remodeling and improvements to facilities.

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

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

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized. The school district does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bonds payable are reported net of the applicable bond premium or discount. 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 are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

Deferred Outflows - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows of resources related to the net pension liability and the net other postemployment benefit liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

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 two items that qualify for reporting in this category. They are the future resources yet to be recognized in relation to the pension and the other postemployment benefit actuarial calculations. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Pension Plan

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

Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the 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.

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.

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.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 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.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Capital Projects Fund Compliance - The Capital Projects Fund include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of 1351a of the State of Michigan's School Code.

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. There were no significant amendments during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have significant expenditure budget variances.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 3 - CASH AND CASH EQUIVALENTS

The School District's cash and cash equivalents at June 30, 2018, are composed of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Deposits	<u>\$ 3,503,506</u>	<u>\$ 130,053</u>	<u>\$ 3,633,559</u>

Deposits consist of checking, savings, and bank municipal investment funds. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$3,776,597. Of that amount, \$250,000 was covered by federal depository insurance coverage or secured and \$3,516,501 was uninsured and uncollateralized. The balance of \$10,096 was invested in the Michigan Investment Liquid Asset Fund (MILAF) which are not categorized by risk. The School District's investment in the MILAF investment pool was rated AAAM by Standard & Poor's.

The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. The School District evaluates each financial institution it deposits School District funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 4 - INVESTMENTS

Investments are stated at fair value and at June 30, 2018 are composed of the following:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturities</u>	<u>Rating</u>	<u>Rating Organization</u>
Michigan Liquid Asset Fund	<u>\$ 280,198</u>	N/A	AAAM	S&P

DELTON KELLOGG SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 - CAPITAL ASSETS

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

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance June 30, 2018</u>
Assets, not being depreciated - Land	\$ 841,425	\$ -	\$ -	\$ 841,425
Capital assets, being depreciated:				
Buildings and improvements	40,073,451	-	-	40,073,451
Buses and other vehicles	1,357,024	147,383	100,232	1,404,175
Furniture and equipment	2,128,317	7,715	-	2,136,032
Construction in process	<u>280,394</u>	<u>891,705</u>	<u>-</u>	<u>1,172,099</u>
Subtotal	43,839,186	1,046,803	100,232	44,785,757
Accumulated depreciation:				
Buildings and improvements	21,700,656	1,067,676	-	22,768,332
Buses and other vehicles	1,054,113	65,250	100,232	1,019,131
Furniture and equipment	<u>1,374,083</u>	<u>107,750</u>	<u>-</u>	<u>1,481,833</u>
Subtotal	<u>24,128,852</u>	1,240,676	100,232	<u>25,269,296</u>
Net capital assets being depreciated	<u>19,710,334</u>			<u>19,516,461</u>
Net capital assets	<u>\$ 20,551,759</u>			<u>\$ 20,357,886</u>

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

DELTON KELLOGG SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due To/From Other Funds:		
Public Improvement Fund	General Fund	\$ 470,000
Food Service Fund	General Fund	167,330
General Fund	Debt Service Fund	-
Capital Projects Fund	General Fund	<u>19,932</u>
		<u>\$ 657,262</u>
Interfund Transfers:		
Transfer in:	Transfer Out:	
General Fund	Food Service Fund	\$ 49,989
Public Improvement Fund	General Fund	<u>370,000</u>
		<u>\$ 419,989</u>

NOTE 7 - UNAVAILABLE/UNEARNED REVENUE

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned revenue include unearned grant, categorical aid payments and donations received prior to meeting all eligibility requirements in the amount of \$339,680.

NOTE 8 - SHORT-TERM NOTE PAYABLE

During the year, the District issued a State Aid Anticipation Note dated August 21, 2017 maturing August 20, 2018 in the amount of \$2,100,000 with an interest rate of 1.61%. Debt was issued to meet short-term cash flow needs. The note is secured by the full faith and credit of the District. A new note was issued dated August 20, 2018 maturing August 20, 2019 for a total of \$2,175,000 with an interest rate of 2.60%.

<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2018</u>
<u>\$ 2,500,000</u>	<u>\$ 2,100,000</u>	<u>\$ 2,500,000</u>	<u>\$ 2,100,000</u>

DELTON KELLOGG SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 - LONG-TERM DEBT

The school district issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the school district.

Long-term obligation activity can be summarized as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds	\$ 15,960,000	\$ -	\$ 1,740,000	\$ 14,220,000	\$ 1,790,000
Premiums	197,709	-	83,000	114,709	19,845
Discounts	<u>(119,560)</u>	<u>-</u>	<u>(21,080)</u>	<u>(98,480)</u>	<u>(17,040)</u>
Bonds, net	<u>\$ 16,038,149</u>	<u>\$ -</u>	<u>\$ 1,801,920</u>	<u>\$ 14,236,229</u>	<u>\$ 1,792,805</u>
Deferred Outflows - Deferred charges from bond refundings	<u>\$ (45,776)</u>	<u>\$ -</u>	<u>\$ (30,360)</u>	<u>\$ (15,416)</u>	

The annual requirement to service the bonds and notes outstanding to maturity, including both principal and interest, are as follows:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,790,000	\$ 540,306	\$ 2,330,306
2020	1,200,000	486,606	1,686,606
2021	1,250,000	438,606	1,688,606
2022	1,295,000	401,106	1,696,106
2023	1,325,000	349,306	1,674,306
2024-2028	<u>7,360,000</u>	<u>907,130</u>	<u>8,267,130</u>
	<u>\$ 14,220,000</u>	<u>\$ 3,123,060</u>	<u>\$ 17,343,060</u>

DELTON KELLOGG SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 - LONG-TERM DEBT - (Continued)

Governmental Activities:

General obligation bonds consist of:

2012 Refunding Bonds payable in annual installments of \$1,130,000 to \$1,310,000 plus interest at 2.00% to 3.00% through May 2019	\$ 1,310,000
2013 School Building and Site Bonds payable in annual installments of \$155,000 to \$1,535,000 plus interest at 2.00% to 4.12% through May 2028	<u>12,910,000</u>
	<u>\$ 14,220,000</u>

NOTE 10 - CONSTRUCTION COMMITMENTS

The School District has active construction projects at year end. These construction projects are being completed from funds received by the \$14,750,000 2013 Building and Site Bond Issue. The District's cumulative expenditures at June 30, 2018 from this bond issue amounted to \$14,763,117.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLAN

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

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

The System's financial statements are available at www.michigan.gov/orsschools.

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

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

Regular Retirement - The retirement benefit for DB and Pension Plus members is based on a member's years of credited service (employment) and final average compensation (FAC). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period.

There is no mandatory retirement age.

Funding Policy

Defined Contribution Plan - Employer contributions to the Plan are dependent on the plan elected by the participant.

DELTON KELLOGG SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 - DEFINED BENEFIT PENSION PLAN (Continued)

Contributions and Funded Status

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

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

The schedule below summarizes pension contribution rates in effect for the Plan's fiscal year September 30, 2017:

Pension Contribution Rates

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

The School District's contributions to the MPSERS Defined Benefit Plan for the year ended September 30, 2017 was \$1,584,513.

The School District's contributions to the MPSERS Defined Contribution Plan were \$49,198 for the year ended June 30, 2018, which is equal to the pension expense recognized by the School District for the year.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLAN (Continued)

Post-Employment Benefits - Under MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS Plan discussed above.

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

Pension Liabilities - At June 30, 2018, the School District reported a liability of \$17,506,264 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 rolled forward from September 30, 2016. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the systems employers during the measurement period by the percent of pension contributions required from all applicable employees during the measurement period. At September 30, 2017, the School District's proportion was 0.06755%, which was an increase of 0.00178% from its proportion measured as of September 30, 2016.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLAN (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the year ended June 30, 2018, the School District recognized pension expense of \$1,154,425. At June 30, 2018, the School District 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>
Differences between expected and actual experience	\$ 152,141	\$ (85,900)
Changes of assumptions	1,917,950	-
Net difference between projected and actual earnings on pension plan investments	-	(836,915)
Changes in proportion and differences between employer contributions and proportionate share of contributions	351,043	(765,034)
Reporting Unit contributions subsequent to the measurement date	<u>937,400</u>	<u>-</u>
Total	<u>\$ 3,358,534</u>	<u>\$ (1,687,849)</u>

From the above table, \$937,400 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2018	\$ (8,967)
2019	393,423
2020	337,040
2021	11,789

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions

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

Additional information as of the latest actual valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2017
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
MIP and Basic Plans (Non-Hybrid):	8.0%
Pension Plus Plan (Hybrid):	7.5%
Projected Salary Increases:	3.5-12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members

Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.5188 for non-university employers
- Recognition period for assets is 5 years
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/orsschools).

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLAN (Continued)

Long-Term Expected Rate of Return on Investments - The long-term expected rate of return on pension plan investments was determined using a 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

*Long-term rate of return does not include 2.3% inflation.

Discount Rate

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

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT PENSION PLAN (Continued)

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

	1% Decrease (Non-Hybrid/Hybrid) <u>(6.5% / 6.0%)</u>	Current Single Discount Rate Assumptions (Non-Hybrid/Hybrid) <u>(7.5% / 7.0%)</u>	1% Increase (Non-Hybrid/Hybrid) <u>(8.5% / 8.0%)</u>
School District's proportionate share of net pension liability	\$ 22,804,839	\$ 17,506,264	\$ 13,045,201

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2017 Comprehensive Annual Financial Report, available here: www.michigan.gov/orsschools.

Payables to the Pension Plan - At year end the School District is current on all required pension plan payments. Amount accrued at year end for accounting purposes represent accruals for retirement on payroll earned by June 30, 2018 and paid during the summer months and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

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

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

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

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

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

Benefits Provided

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

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

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

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Contributions

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

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

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

Benefit Structure	OPEB Contribution Rates	
	Member	Employer
Premium Subsidy	3.00%	5.91%
Personal Healthcare Fund (PHF)	0.00%	5.69%

Required contributions to the OPEB plan from the School District were \$526,932 for the year ended September 30, 2017.

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

At June 30, 2018, the School District reported a liability of \$5,993,550 for its proportionate share of the MPSE net OPEB liability. The net OPEB liability was measured as of September 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 30, 2016. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the systems during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was 0.06768%, which was unchanged from its proportion measured as of October 1, 2016.

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

For the year ended June 30, 2018, the School District recognized healthcare expense of \$261,809. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to postemployment benefits from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Differences between expected and actual experience	\$ -	\$ (63,814)
Net difference between projected and actual earnings on OPEB plan investments	-	(138,812)
Changes in proportion and differences between employer contributions and proportionate share of contributions	291	-
School District contributions subsequent to measurement date	<u>421,200</u>	<u>-</u>
Total	<u>\$ 421,491</u>	<u>\$ (202,626)</u>

From the above table, \$421,200 contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2018	\$ (48,900)
2019	(48,900)
2020	(48,900)
2021	(48,900)
2022	(6,735)

Actuarial Assumptions

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

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date	September 30, 2016
Actuarial Cost Method	Entry Age, Normal
Wage inflation Rate	3.5%
Investment Rate of Return	7.5%
Projected Salary Increases	3.5-12.3%, including wage inflation at 3.5%
Healthcare Cost Trend Rate	7.5% Year 1 graded to 3.5% Year 12
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Other Assumptions

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

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.4744 for non-university employers.
- Recognition period for assets in years is 5.0.
- Full actuarial assumptions are available in the 2017 MP SER Comprehensive Annual Financial Report (www.michigan.gov/orsschools).

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Long-Term Expected Rate of Return on Investments

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

Investment Category	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.6%
Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	(.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short-Term Investment Pools	2.0	(.9)
	100.0%	

*Long-Term rate of return does not include 2.1% inflation.

Rate of Return

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

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Discount Rate

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

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

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

1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
\$ 7,020,180	\$ 5,993,550	\$ 5,122,263

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

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

1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
\$ 5,075,731	\$ 5,993,550	\$ 7,035,670

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

OPEB Plan Fiduciary Net Position

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

Payables to the OPEB Plan

At year end the School District is current on all required OPEB plan payments. Amount accrued at year end for accounting purposes represent accruals for postemployment benefits on payroll earned by June 30, 2018 and paid during the summer months and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

NOTE 13 - RISK MANAGEMENT

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

NOTE 14 - CONTINGENT LIABILITIES

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

DELTON KELLOGG SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 15 - ACCOUNTING CHANGES

In June 2015, the Governmental Accounting Standards Board issued Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, an amendment of GASB Statement No. 45. GASB 75 improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions. It also improves information provided by entities. GASB 75 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity and creating additional transparency.

GASB 75 requires employers to report net OPEB benefits as a liability in the statement of net position. GASB 75 requires immediate recognition of the OPEB expense, including annual service cost and interest, and the effect of changes in benefit terms on the net OPEB liability. Cost-sharing employers are required to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. GASB 75 also requires expanded note disclosures and required supplementary information covering the past 10 years for the net OPEB liability.

The School District implemented GASB 75 during the year by retroactive restatement of June 30, 2017 net position, as follows:

Net position at June 30, 2017, <i>as originally stated</i>	\$ (8,769,895)
Record net OPEB liability at June 30, 2017	(6,321,868)
Record deferred outflows at June 30, 2017	<u>315,450</u>
Net position at June 30, 2017, as restated	<u>\$ (14,776,313)</u>

REQUIRED SUPPLEMENTAL INFORMATION

DELTON KELLOGG SCHOOLS

**REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenues:				
Local sources	\$ 2,917,452	\$ 3,454,744	\$ 3,375,248	\$ (79,496)
State sources	8,404,415	8,815,934	8,730,428	(85,506)
Federal sources	492,613	611,946	486,234	(125,712)
Interdistrict sources	<u>126,660</u>	<u>125,660</u>	<u>153,252</u>	<u>27,592</u>
Total revenue	11,941,140	13,008,284	12,745,162	(263,122)
Expenditures:				
Instruction				
Basic programs	5,852,139	6,199,634	5,980,767	(218,867)
Added needs	1,643,187	1,710,652	1,614,061	(96,591)
Career and technical	228,268	310,456	312,069	1,613
Support services				
Pupil	313,721	342,214	315,275	(26,939)
Instructional staff	118,919	227,726	131,056	(96,670)
General administration	436,749	459,440	428,573	(30,867)
School administration	704,939	709,857	692,382	(17,475)
Business services	337,975	351,547	320,343	(31,204)
Operations and maintenance	1,142,985	1,332,170	1,226,723	(105,447)
Transportation	636,041	774,309	721,067	(53,242)
Central services	323,846	308,576	288,609	(19,967)
Community Services	72,048	74,314	75,658	1,344
Athletics	<u>386,270</u>	<u>396,490</u>	<u>378,803</u>	<u>(17,687)</u>
Total expenditures	<u>12,197,087</u>	<u>13,197,385</u>	<u>12,485,386</u>	<u>(711,999)</u>
Excess (deficiency) of revenues over expenditures	(255,947)	(189,101)	259,776	448,877
Other financing sources (uses)				
Operating transfers in	10,000	40,000	49,989	9,989
Operating transfers out	<u>-</u>	<u>(370,000)</u>	<u>(370,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>10,000</u>	<u>(330,000)</u>	<u>(320,011)</u>	<u>9,989</u>
Net change in fund balance	(245,947)	(519,101)	(60,235)	458,866
Fund balance – July 1	<u>973,291</u>	<u>973,291</u>	<u>973,291</u>	<u>-</u>
Fund balance – June 30	<u>\$ 727,344</u>	<u>\$ 454,190</u>	<u>\$ 913,056</u>	<u>\$ 458,866</u>

DELTON KELLOGG SCHOOLS

REQUIRED SUPPLEMENTAL INFORMATION

**BUDGETARY COMPARISON SCHEDULE
FOOD SERVICE SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenues:				
Local sources	\$ 190,683	\$ 174,800	\$ 191,699	\$ 16,899
State sources	24,494	26,360	26,360	-
Federal sources	337,939	374,879	404,020	29,141
Interdistrict sources	<u>3,990</u>	<u>3,500</u>	<u>3,541</u>	<u>41</u>
Total revenue	557,106	579,539	625,620	46,081
Expenditures:				
Salaries	187,193	192,243	196,686	4,443
Employee benefits	89,898	92,324	83,500	(8,824)
Purchased services	25,910	26,400	21,967	(4,433)
Supplies, material, and other	247,574	263,800	265,940	2,140
Capital outlay	<u>2,600</u>	<u>14,420</u>	<u>16,405</u>	<u>1,985</u>
Total expenditures	<u>553,175</u>	<u>589,187</u>	<u>584,498</u>	<u>(4,689)</u>
Excess (deficiency) of revenues over expenditures	3,931	(9,648)	41,122	50,770
Other Financing Sources (Uses):				
Operating transfers out	<u>(10,000)</u>	<u>(40,000)</u>	<u>(49,989)</u>	<u>9,989</u>
Excess (deficiency) of revenues over expenditures	(6,069)	(49,648)	(8,867)	40,781
Fund balance – July 1	<u>206,416</u>	<u>206,416</u>	<u>206,416</u>	<u>-</u>
Fund balance – June 30	<u>\$ 200,347</u>	<u>\$ 156,768</u>	<u>\$ 197,549</u>	<u>\$ 40,781</u>

DELTON KELLOGG SCHOOLS

**SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**

Michigan Public School Employees Retirement Plan

	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>	<u>9/30/2014</u>
School District's proportion of collective net pension liability	0.06755%	0.06577%	0.06660%	0.07395%
School District's proportionate share of net pension liability	\$ 17,506,264	\$ 16,410,274	\$ 16,267,507	\$ 16,289,044
School District's covered-employee payroll	\$ 5,760,691	\$ 5,544,545	\$ 5,578,962	\$ 6,072,502
School District's proportionate share of net pension liability as a percentage of covered-employee payroll	303.8917%	295.9715%	291.5866%	268.2427%
Plan fiduciary net position as a percentage of total pension liability	64.21%	63.27%	63.17%	66.20%

SCHEDULE OF SCHOOL DISTRICT'S PENSION CONTRIBUTIONS

Michigan Public School Employees Retirement Plan

	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
Statutorily required employer contributions	\$ 1,154,425	\$ 1,060,640	\$ 1,035,350	\$ 1,284,180
School District contributions made to the Plan	<u>1,154,425</u>	<u>1,060,640</u>	<u>1,035,350</u>	<u>1,284,180</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 6,018,669	\$ 5,734,810	\$ 5,205,640	\$ 5,597,750
Contributions as a percentage of covered-employee payroll	19.18%	18.49%	19.89%	22.94%

Change of benefit terms: There were no changes of benefit terms in 2017.

Change of assumptions: There were no changes of benefit assumptions in 2017.

DELTON KELLOGG SCHOOLS

**SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY**

Michigan Public School Employees Retirement Plan

	<u>9/30/2017</u>
School District's proportion of collective net OPEB liability	0.06768%
School District proportionate share of net OPEB liability	\$ 5,993,550
School District's covered-employee payroll (OPEB)	\$ 5,760,691
School District's proportionate share of net OPEB liability as a percentage of covered-employee payroll	104.04%
Plan fiduciary net position as a percentage of total OPEB liability	36.39%

SCHEDULE OF SCHOOL DISTRICT'S OPEB CONTRIBUTIONS

Michigan Public School Employees Retirement Plan

	<u>6/30/2018</u>
Statutorily required OPEB contributions	\$ 493,542
OPEB contributions in relation to statutorily required contributions	<u>493,542</u>
Contributions deficiency (excess)	<u>\$ -</u>
School District's covered-employee payroll (OPEB)	\$ 6,018,669
OPEB contributions as a percentage of covered-employee payroll	8.20%

Change of benefit terms: There were no changes of benefit terms in 2017.

Change of assumptions: There were no changes of benefit assumptions in 2017.

OTHER SUPPLEMENTAL INFORMATION

DELTON KELLOGG SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

**STUDENT ACTIVITIES AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2018**

	<u>Balances June 30, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2018</u>
<u>ASSETS</u>				
Cash and cash equivalents	<u>\$ 124,306</u>	<u>\$ 219,136</u>	<u>\$ 213,389</u>	<u>\$ 130,053</u>
<u>LIABILITIES</u>				
Due to student groups	<u>\$ 124,306</u>	<u>\$ 219,136</u>	<u>\$ 213,389</u>	<u>\$ 130,053</u>

DELTON KELLOGG SCHOOLS

**OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF BONDED INDEBTEDNESS**

\$7,295,000 2012 Refunding Bonds

<u>Year Ended</u> <u>June 30</u>	<u>Rate</u>	<u>Principal</u> <u>May 1</u>	<u>Interest</u>		<u>Total</u>
			<u>November 1</u>	<u>May 1</u>	
2019	3.00	<u>\$ 1,310,000</u>	<u>\$ 19,650</u>	<u>\$ 19,650</u>	<u>\$ 1,349,300</u>

\$14,750,000 2013 School Building and Site Bonds

<u>Year Ended</u> <u>June 30</u>	<u>Rate</u>	<u>Principal</u> <u>May 1</u>	<u>Interest</u>		<u>Total</u>
			<u>November 1</u>	<u>May 1</u>	
2019	3.00	\$ 480,000	\$ 250,503	\$ 250,503	\$ 981,006
2020	4.00	1,200,000	243,303	243,303	1,686,606
2021	3.00	1,250,000	219,303	219,303	1,688,606
2022	4.00	1,295,000	200,553	200,553	1,696,106
2023	4.00	1,325,000	174,653	174,653	1,674,306
2024	4.00	1,400,000	148,153	148,153	1,696,306
2025	4.00	1,425,000	120,153	120,153	1,665,306
2026	4.00	1,475,000	91,653	91,653	1,658,306
2027	4.00	1,535,000	62,153	62,153	1,659,306
2028	4.12	<u>1,525,000</u>	<u>31,453</u>	<u>31,453</u>	<u>1,587,906</u>
		<u>\$12,910,000</u>	<u>\$ 1,541,880</u>	<u>\$ 1,541,880</u>	<u>\$15,993,760</u>

DELTON KELLOGG SCHOOLS

**OTHER SUPPLEMENTAL INFORMATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. Department of Education</u>			
Passed Through State Department of Education:			
Title I - Educationally Deprived	84.010	1815301718 1715301617 1615301516	\$ 271,064 245,524 289,612
Title IIA Teacher Quality	84.367	1805201718 1705201617 1605201516	143,624 173,802 160,380
Title IVA Student Support	84.424	1807501718	10,000
Total passed through MDE			
Passed Through Intermediate School District:			
CTE Perkins	84.048		8,433
IDEA Flow Through	84.027		176,825

TOTAL DEPARTMENT OF EDUCATION

(continued on next page)

Accrued (Deferred) Revenue <u>June 30, 2017</u>	(Memo only) Prior Year <u>Expenditures</u>	<u>Expenditures</u>	<u>Receipts</u>	Accrued (Deferred) Revenue <u>June 30, 2018</u>
\$ -		\$ 228,902	\$ 70,000	\$ 158,902
62,025	167,025	92	62,117	-
<u>-</u>	196,229	<u>(93)</u>	<u>(93)</u>	<u>-</u>
62,025		228,901	132,024	158,902
-		60,518	33,227	27,291
20,088	38,414	37	20,125	-
<u>-</u>	81,121	<u>(37)</u>	<u>(37)</u>	<u>-</u>
20,088		60,518	53,315	27,291
<u>-</u>		<u>10,000</u>	<u>2,000</u>	<u>8,000</u>
82,113		299,419	187,339	194,193
-		8,433	8,433	-
<u>-</u>		<u>176,825</u>	<u>176,825</u>	<u>-</u>
82,113		484,677	372,597	194,193

DELTON KELLOGG SCHOOLS

**OTHER SUPPLEMENTAL INFORMATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
YEAR ENDED JUNE 30, 2018**

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. Department of Agriculture</u>			
Passed Through State Department of Education Nutrition Cluster			
Summer Food Service for Children	10.559	16-17 17-18	9,559 15,704
CACFP Meals	10.558	181920	1,284
National School Lunch Program	10.555	171960 181960	261,431 242,975
National School Lunch Breakfast	10.553	171970 181970	71,511 69,023
Direct Programs - non-cash assistance Entitlement Commodities	10.555		46,275

TOTAL DEPARTMENT OF AGRICULTURE

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

 Passed Through Intermediate School District:

Medicaid Outreach	93.778		1,557
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TOTAL FEDERAL FINANCIAL ASSISTANCE

Notes:

- 1.* Designates Major Program
2. Dollar threshold used to distinguish between Type A and Type B programs - \$750,000.
3. Expenditures in this schedule are in agreement with amounts reported in the financial statements.
4. The amounts reported on the R7120 reconcile with this schedule.
5. This schedule has been prepared under the modified accrual basis of accounting.

Accrued (Deferred) Revenue <u>June 30, 2017</u>	(Memo only) Prior Year <u>Expenditures</u>	<u>Expenditures</u>	<u>Receipts</u>	Accrued (Deferred) Revenue <u>June 30, 2018</u>
3,523	3,523	6,036	9,559	-
<u>-</u>		<u>3,515</u>	<u>-</u>	<u>3,515</u>
3,523		* 9,551	9,559	3,515
-		* 1,284	1,284	-
-	233,693	27,738	27,738	-
<u>-</u>		<u>242,975</u>	<u>242,975</u>	<u>-</u>
-		* 270,713	270,713	-
-	64,337	7,174	7,174	-
<u>-</u>		<u>69,023</u>	<u>69,023</u>	<u>-</u>
-		* 76,197	76,197	-
<u>-</u>		<u>46,275</u>	<u>46,275</u>	<u>-</u>
3,523		404,020	404,028	3,515
<u>-</u>		<u>1,557</u>	<u>1,557</u>	<u>-</u>
<u>\$ 85,636</u>		<u>\$ 890,254</u>	<u>\$ 778,182</u>	<u>\$ 197,708</u>



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
Delton Kellogg Schools, Michigan

Norman & Paulsen, P.C.
Certified Public Accountants

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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 Delton Kellogg Schools as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Delton Kellogg Schools' basic financial statements and have issued our report thereon dated October 29, 2018.

Internal Control Over Financial Reporting

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

Bruce S. A. Gosling, CPA, CVA
Michael R. Wilson, CPA
Ricky L. Strawser, CPA

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 Delton Kellogg 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 the Report

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

October 29, 2018

Norman S. Paulsen, P.C.



Norman & Paulsen, P.C.
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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
Delton Kellogg Schools, Michigan

Report on Compliance for Each Major Federal Program

We have audited Delton Kellogg 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 Delton Kellogg Schools' major federal programs for the year ended June 30, 2018. Delton Kellogg 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Delton Kellogg 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 requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Delton Kellogg Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Bruce S. A. Gosling, CPA, CVA
Michael R. Wilson, CPA
Ricky L. Strawser, CPA

Opinion on Each Major Federal Program

In our opinion, Delton Kellogg 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 Delton Kellogg 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 Delton Kellogg 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 Delton Kellogg Schools' internal control over compliance.

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

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

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

October 29, 2018

Norman & Paulson, P.C.



DELTON KELLOGG SCHOOLS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

1. Summary of auditor's results:

- (i) An unmodified opinion was issued on the financial statements.
- (ii) No material weakness or significant deficiency in internal control were disclosed by the audit of the financial statements.
- (iii) The audit disclosed no noncompliance.
- (iv) No material weakness or significant deficiency in internal control over major programs were disclosed by the audit.
- (v) An unmodified opinion was issued on Compliance for major programs.
- (vi) No audit findings were disclosed.
- (vii) Major programs:
 - U.S. Department of Agriculture:
 - 10.553, 10.555, 10.558 & 10.559 Child Nutrition Cluster
- (viii) Dollar threshold used to distinguish between Type A and Type B programs: \$750,000
- (ix) Delton Kellogg Schools qualified as a low-risk auditee.

2. Findings relating to the financial statements which are required to be reported in accordance with GAGAS.

NONE

3. Findings and questioned costs for Federal awards.

NONE

4. Prior year findings:

NONE