WEINLANDER FITZHUGH

WEST BRANCH-ROSE CITY AREA SCHOOLS
WEST BRANCH, MICHIGAN

FINANCIAL STATEMENTS
JUNE 30, 2018

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WEINLANDER FITZHUGH
CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

September 17, 2018

Board of Education
West Branch-Rose City Area Schools
West Branch, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards 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 School District'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 School District'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 West Branch-Rose City Area Schools as of June 30, 2018 and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

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Board of Education
West Branch-Rose City Area Schools
September 17, 2018

Emphasis of Matter

As discussed in Note 14 to the financial statements, in 2018, the School District adopted new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, budgetary comparison information and pension and OPEB schedules as noted 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 U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining nonmajor fund financial statements and schedule of bonded indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and schedule of bonded indebtedness and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

WEINLANDER FITZHUGH

Board of Education
West Branch-Rose City Area Schools
September 17, 2018

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2018, on our consideration of the School District'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Weinlander Fitzhugh

WEST BRANCH-ROSE CITY AREA SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Our discussion and analysis of West Branch-Rose City Area Schools' financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2018.

Financial Highlights

The School District's net position increased by $3,654,096 or 18%. Program revenues were $6,321,700 or 25% of total revenues, and general revenues were $19,054,274 or 75%.

The General Fund reported a positive fund balance of $7,303,741.

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

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

Using this Annual Financial Report

The annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The 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 fund - the General Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students. The following summarizes the presentation included in this annual financial report.

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

Basic Financial Statements
- District-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Pension Schedules (Required Supplemental Information)

OPEB Schedules (Required Supplemental Information)

Other Supplemental Information

Reporting the District as a Whole

The Statement of Net Position and Statement of Activities
One of the most important questions asked about the School District's finances is: "Is the School District better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the School District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School District's net position as a way to measure the School District's financial position. The change in net position provides the reader a tool to assist in determining whether the School District's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, student enrollment growth and facility conditions in arriving at their conclusion regarding the overall health of the School District.

Reporting the 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. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other sources of revenue. The School District's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

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

Fiduciary Funds
The School District is the trustee, or fiduciary, for its student activity funds and scholarship funds. All of the School District's fiduciary activities are reported in separate Statement of Fiduciary Net Position. We exclude these activities from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

District-wide Financial Analysis

The statement of net position provides the perspective of the School District as a whole. Exhibit A provides a summary of the School District's net position as of June 30, 2018 and 2017:

Exhibit A	Governmental Activities	
	2018	Nonrestated 2017
Assets		
Current and other assets	$ 12,012,230	$ 11,327,066
Capital assets - net of accumulated depreciation	17,108,194	17,295,591
Total assets	29,120,424	28,622,657
Deferred Outflows of Resources		
Related to pensions and OPEB	6,628,465	3,355,185
Liabilities		
Current liabilities	4,569,237	6,200,985
Long-term liabilities	44,425,283	34,961,705
Total liabilities	48,994,520	41,162,690
Deferred Inflows of Resources		
Related to refunding	101,636	119,572
Related to pensions and OPEB	3,576,566	1,944,285
Unavailable revenue - GSRP	229,017	0
Total deferred inflows of resources	3,907,219	2,063,857
Net Position		
Net investment in capital assets	8,836,506	7,824,782
Restricted	980,235	912,299
Unrestricted	(26,969,591)	(19,985,786)
Total deferred inflows of resources	$ (17,152,850)	$ (11,248,705)

Exhibit A focuses on net position of the School District. The School District's net position was $(17,152,850) at June 30, 2018. Capital assets, net of related debt totaling approximately $8,836,506 compares the original costs, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt requirements and legislation that limit the School District's ability to use that net position for day-to-day operations.

The $(26,969,591) 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 School District implemented GASB Statement No. 68 in 2015. The effect of this Statement required the School District to report in the summary of net position, a liability of $27,624,745 for 2018 and $26,312,395 for 2017.

The School District implemented GASB Statement No. 75 in 2018. The effect of this Statement required the School District to report in the summary of net position, a liability of $9,429,582 for 2018 and $0 for 2017.

The results of this year's operations for the School District as a whole are reported in the statement of activities. Exhibit B provides a summary of the changes in net position for the years ended June 30, 2018 and 2017.

Exhibit B	Governmental Activities 2018	Governmental Activities Nonrestated 2017
Revenues		
Program revenue:		
Charges for services	$ 319,428	$ 363,686
Grants and categoricals	6,002,272	5,720,118
General revenue:		
Property taxes	8,049,149	8,136,422
State aid	9,274,984	8,834,529
Other	1,730,141	469,705
Total revenues	25,375,974	23,524,460
Function/Program Expenses		
Instruction	11,427,419	11,679,380
Support services	7,365,768	6,792,930
Community services	57,214	44,075
Food services	1,328,399	1,059,581
Athletics	405,002	368,601
Miscellaneous	730	0
Interest on long-term debt	224,302	266,315
Depreciation (unallocated)	913,044	879,785
Total expenses	21,721,878	21,090,667
Change in Net Position	$ 3,654,096	$ 2,433,793

The School District implemented GASB Statement No. 75 for 2018. The effect of this Statement required the School District to report in the summary of the change in net position, an expense of $767,893. The 2017 summary of the School District's change in net position was not restated to reflect this implementation.

As reported in the statement of activities, the cost of all of our governmental activities this year was $21,721,878. Certain activities were partially funded from those who benefited from the programs, $319,428, or by the other governments and organizations that subsidized certain programs with grants and categoricals of $6,002,272. We paid for the remaining "public benefit" portion of our governmental activities with $8,049,149 in taxes, $9,274,984 in State aid and with our other revenues, such as interest and entitlements.

The School District had an increase in net position of $3,654,096. There are two major reasons why this occurred. First, enrollment was better than anticipated and secondly, at the end of the fiscal year, the district received a settlement check in the amount of $1,369,707.30 for pool damage. These funds flowed through to the fund balance, but will be spent the following fiscal year reducing our fund and net balance. The increase in net position differs from the change in fund balance and a reconciliation appears in the financial statements.

The School District's Funds

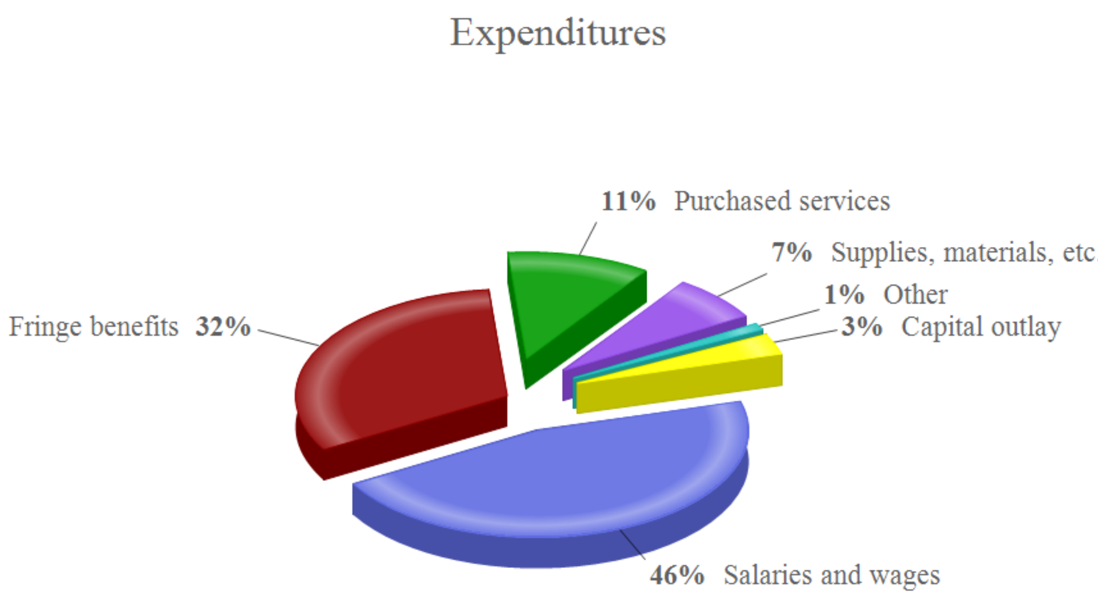
The School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall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

The School District's governmental funds reported a combined fund balance of $8,344,684, which is above last year's total of $6,218,616. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2018 and 2017.

	Fund Balance 6/30/2018	Fund Balance 6/30/2017	Increase (Decrease)
General	$ 7,303,741	$ 5,238,782	$ 2,064,959
Special Revenue (Food Service)	696,722	678,993	17,729
Debt Service	344,221	300,841	43,380
	$ 8,344,684	$ 6,218,616	$ 2,126,068

- Our General Fund increased by $2,064,959 due to better than expected student enrollment and the receipt of a insurance settlement check in the amount of $1,369,707.30 in the last two weeks of the fiscal year. These funds will be spent in the following fiscal year causing a decrease in our General Fund balance..
- Our Special Revenue Fund increased by $17,729. Every effort was made to reduce the fund balance, but given the amount of funds to be spent, the goal was not achieved. Labor and products were difficult to procure due to the robust economy.
- Our Debt Service Fund increased by $43,380, a nominal amount, a result of estimating the millage levied.

As the graph below illustrates, the largest portions of General Fund expenditures are for salaries and fringe benefits. The School District by nature is a labor intensive organization.



	2018	2017
Expenditures by Object:		
Salaries and wages	$ 9,271,850	$ 8,969,327
Fringe benefits	6,612,748	6,267,551
Purchased services	2,175,660	2,201,155
Supplies, materials, etc.	1,414,926	1,161,892
Capital outlay	627,314	501,070
Other	286,259	364,107
Total	$ 20,388,757	$ 19,465,102

Expenditures are up approximately $923,655 or 1% over the prior year primarily due to the addition of staff to accommodate increased student enrollment and wage/benefit increases. Additional expenses were incurred from facility upgrades and improvements.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget to reflect 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 amended to update changes in State Aid calculations, changes to allocation of federal grants and changes to allocation of state grants.
- Budgeted expenditures were amended to update changes to facility projects and employee salaries and benefits.
- Actual to Budget variances occurred as a result of sound conservative budgeting and less than expected expenditures. Additionally, the receipt of an insurance settlement check in the amount of $1,369,707.30 at the end of the fiscal year contributed to the variance.

Capital Assets

At June 30, 2018, the School District had $17,108,194 invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net decrease (including additions and disposals) of 1% from last year.

	2018	2017
Land	$ 327,981	$ 327,981
Construction in progress	26,125	579,047
Buildings and improvements	31,034,512	30,341,881
Buses and other vehicles	2,462,017	2,433,727
Furniture and equipment	12,206,627	11,752,423
Total capital assets	46,057,262	45,435,059
Less accumulated depreciation	28,949,068	28,139,468
Net capital assets	$ 17,108,194	$ 17,295,591

This year's addition of $1,304,694 includes the purchase of a new bus, various building improvements, technology upgrades, machinery and equipment, mainly for building trades and metal programs.

We anticipate capital additions will continue with the upgrading of boilers, roofs and building systems. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had $7,285,000 in bonds outstanding versus $8,310,000 in the previous year - a decrease of 12%.

	2018	2017
2015 Refunding School Building & Site Bonds	$ 7,285,000	$ 8,310,000

Factors Expected to have an Effect on Future Operations

Curriculum and Instruction

The district has been able to maintain and increase programs, including all Career and Technical Education (CTE) programs at the high school, Advanced Placement courses, and academic support programs.

The Mathematics curriculum for Grades K12 has been aligned to the Common Core State Standards. The district continues implementation of the Common Core Literacy standards across the curriculum. In addition, enrollment in online courses continues to grow, which requires additional resources for technology and oversight.

Professional development offerings at the local level have increased and staff members continue to strive to improve instructional strategies. The West BranchRose City staff is commended for the hard work and dedication that is evident on a daily basis. The district is committed to providing a quality education to all students and sets high academic standards. Teachers are expected to use data on a regular basis to differentiate instruction and increase rigor. Teachers are also expected to make the instructional shifts necessary to fully implement the Common Core State Standards. Accelerating academic achievement for all students is an expectation at all levels and will be accomplished by strengthening Tier 1 instruction and providing support for students through frequent progress monitoring, instructional interventions, and extended day and extended year programs.

While the district has maintained most instructional programs and has invested in technology upgrades, limited resources are available to expand programs. Costs for instructional programming, technology, and transportation replacement are a growing financial, operational, and instructional concern.

Financially, the district continues to face challenges but has experienced an ease in declining enrollment, however, facility needs are continuing to require attention and need to be addressed.

The biggest negative to the financial future of the district is the continuation of declining enrollment, and the increase in retirement costs. The 2018-19 school year budget is based on a decline of 50 students. The major factor in loss of enrolling students is the declining numbers in the early grades, as fewer students are added each year, with much larger numbers graduating. These large graduation numbers will continue for at least the next few years. Therefore, the enrollment decline and loss of revenue will continue.

The good economic news for the short term of the District are the sound fiscal management practices. With a little easing up of the finances, a frugal approach is still employed with each decision. This practice is engaged to benefit the long term fiscal stability of the district.

West BranchRose City Area School District is proud of the fact that the district is fiscally viable, provides excellent instruction for students, exhibits the organizational commitment to improve, and attract School of Choice students, due to quality programs and quality instructors. These goals will continue to be our district's mission.

Requests for Information

This financial report is designed to provide a general overview of the School District's finances for all those with an interest in the School District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the Superintendent
West Branch-Rose City Area Schools
P.O. Box 308
West Branch, MI 48661-0308

WEST BRANCH-ROSE CITY AREA SCHOOLS
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets	
Cash and investments	$ 7,812,219
Due from other governmental units	3,910,453
Accounts receivable	15,384
Internal balance	161
Inventory	111,945
Prepaid expenses	162,068
Capital assets less accumulated depreciation $28,949,068	17,108,194
Total assets	29,120,424
Deferred Outflows of Resources	
Related to pensions	6,017,439
Related to OPEB	611,026
Total deferred outflows of resources	6,628,465
Liabilities	
Accounts payable	560,980
State aid anticipation notes	1,000,000
Accrued interest payable	60,708
Accrued payroll and other liabilities	1,664,639
Unearned revenue	212,910
Long-term liabilities:	
Due within one year	1,070,000
Due in more than one year	7,370,956
Net pension liability	27,624,745
Net pension OPEB	9,429,582
Total liabilities	48,994,520
Deferred Inflows of Resources	
Related to pensions	3,257,778
Related to OPEB	318,788
Deferred gain on refunding	101,636
Unavailable revenue - GSRP	229,017
Total deferred inflows of resources	3,907,219
Net Position	
Net investment in capital assets	8,836,506
Restricted for debt service	283,513
Restricted for food service	696,722
Unrestricted	(26,969,591)
Total net position	$ (17,152,850)

See accompanying notes to financial statements.

WEST BRANCH-ROSE CITY AREA SCHOOLS
Statement of Activities
For the Year Ended June 30, 2018

		Program Revenues		Governmental Activities
	Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs				
Primary government -				
Governmental activities:				
Instruction	$ 11,427,419	$ 0	$ 4,742,327	$ (6,685,092)
Support services	7,365,768	92,903	0	(7,272,865)
Community services	57,214	0	0	(57,214)
Food services	1,328,399	158,344	1,259,945	89,890
Athletics	405,002	68,181	0	(336,821)
Miscellaneous	730	0	0	(730)
Interest on long-term debt	224,302	0	0	(224,302)
Depreciation (unallocated)	913,044	0	0	(913,044)
Total governmental activities	$ 21,721,878	$ 319,428	$ 6,002,272	(15,400,178)

General revenues:	
Taxes:	
Property taxes, levied for general purposes	6,605,623
Property taxes, levied for debt services	1,443,526
State aid	9,274,984
Interest and investment earnings	9,985
Other	1,720,156
Total general revenues	19,054,274
Change in net position	3,654,096
Net position - beginning of year, restated	(20,806,946)
Net position - end of year	$ (17,152,850)

See accompanying notes to financial statements.

WEST BRANCH-ROSE CITY AREA SCHOOLS
Governmental Funds
Balance Sheet
June 30, 2018

	General	Other Nonmajor Governmental Funds	Total
Assets			
Cash and investments	$ 7,198,322	$ 613,897	$ 7,812,219
Due from other governmental units	3,881,687	28,766	3,910,453
Receivables - net:			
Accounts receivable	12,122	3,262	15,384
Due from other funds	16,601	447,196	463,797
Inventory	89,541	22,404	111,945
Prepaid expenditures	85,068	77,000	162,068
Total assets	$ 11,283,341	$ 1,192,525	$ 12,475,866
Liabilities, Deferred Inflows of Resources and Fund Balance			
Liabilities			
Accounts payable	$ 425,838	$ 135,142	$ 560,980
Due to other funds	447,196	16,440	463,636
State aid anticipation notes	1,000,000	0	1,000,000
Accrued payroll and other liabilities	1,664,639	0	1,664,639
Unearned revenue	212,910	0	212,910
Total liabilities	3,750,583	151,582	3,902,165
Deferred Inflows of Resources			
Unavailable revenue - GSRP	229,017	0	229,017
Fund Balance			
Nonspendable - inventory	89,541	22,404	111,945
Nonspendable - prepaid	85,068	77,000	162,068
Restricted for debt service	0	344,221	344,221
Restricted for food service	0	597,318	597,318
Assigned for insurance work	1,600,000	0	1,600,000
Unassigned	5,529,132	0	5,529,132
	7,303,741	1,040,943	8,344,684
Total liabilities, deferred inflows of resources and fund balance	$ 11,283,341	$ 1,192,525	$ 12,475,866

See accompanying notes to financial statements.

WEST BRANCH-ROSE CITY AREA SCHOOLS
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2018

Total fund balance - governmental funds	$ 8,344,684
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	
Cost of the capital assets	46,057,262
Accumulated depreciation	(28,949,068)
Deferred outflows used in governmental activities are not financial resources and therefore are not reported in governmental funds:	
Related to pensions	6,017,439
Related to OPEB	611,026
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(7,285,000)
Compensated absences	(169,268)
Bond premium	(986,688)
Net pension liability	(27,624,745)
Net pension OPEB	(9,429,582)
Accrued interest payable is included as a liability in governmental activities	(60,708)
Deferred inflows used in governmental activities are not recognized as current resources and therefore are not reported in governmental funds:	
Related to pensions	(3,257,778)
Related to OPEB	(318,788)
Deferred gain on refunding	(101,636)
Total net position - governmental activities	$ (17,152,850)

See accompanying notes to financial statements.

WEST BRANCH-ROSE CITY AREA SCHOOLS
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2018

	General	Other Nonmajor Governmental Funds	Total
Revenues			
Local sources			
Property taxes	$ 6,605,623	$ 1,441,996	$ 8,047,619
Other	1,820,577	174,253	1,994,830
State sources	12,572,403	89,795	12,662,198
Federal sources	1,449,073	1,188,365	2,637,438
Total revenues	22,447,676	2,894,409	25,342,085
Expenditures			
Current:			
Instruction	11,791,569	0	11,791,569
Support services	8,539,974	0	8,539,974
Community services	57,214	0	57,214
Food services	0	1,396,280	1,396,280
Debt service			
Principal	0	1,025,000	1,025,000
Interest and other	0	405,250	405,250
Miscellaneous	0	730	730
Total expenditures	20,388,757	2,827,260	23,216,017
Excess (deficiency) of revenues over expenditures	2,058,919	67,149	2,126,068
Other Financing Sources (Uses)			
Operating transfers out	(10,400)	(16,440)	(26,840)
Operating transfers in	16,440	10,400	26,840
Total other financing sources (uses)	6,040	(6,040)	0
Net change in fund balance	2,064,959	61,109	2,126,068
Fund balance - beginning of year	5,238,782	979,834	6,218,616
Fund balance - end of year	$ 7,303,741	$ 1,040,943	$ 8,344,684

See accompanying notes to financial statements.

WEST BRANCH-ROSE CITY AREA SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2018

Net change in fund balance - total governmental funds	$ 2,126,068
Amounts reported for governmental activities in the statements of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Depreciation expense	(913,044)
Capital outlay	725,647
Repayment on bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position	1,025,000
The issuance of long-term debt (e.g. bonds) provide current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, where as these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items as follows:	
Amortization of bond premium	174,121
Amortization of gain on refunding	17,936
Decreases in compensated absences are reported as an addition in expenditures when financial resources are used in the governmental fund in accordance with GASB Interpretation No. 6	34,233
Accrued interest is reported as a reduction in expenses on the Statement of Activities	6,826
Some revenues and expenses reported in the statement of activities are not recognized as or require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	
Pension related items	36,412
OPEB related items	420,897
Change in net position of governmental activities	$ 3,654,096

See accompanying notes to financial statements.

WEST BRANCH-ROSE CITY AREA SCHOOLS
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2018

	Agency Funds
Assets	
Cash and investments	$ 299,967
Liabilities	
Due to other funds	$ 161
Due to student groups	299,806
Total liabilities	$ 299,967

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of West Branch-Rose City Area Schools (School District) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The West Branch-Rose City Area Schools (School District) was consolidated in 1966. The School District is governed by an elected Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the 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 of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments 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 that are not properly included among program revenues are reported as general revenue.

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

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 district-wide financial statements.

Amounts reported as program revenue include; (1) charges to customers 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 revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

General Fund - The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Assets, Liabilities, and Net Position 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds."

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 is recorded as prepaid items in both district-wide and fund financial statements.

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

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

Buildings and additions	10-50 years
Furniture and fixtures	8-20 years
Technological equipment	5-10 years
Other equipment	5-20 years
Vehicles and buses	5-10 years

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

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund Equity - The fund balance classifications are reported on the extent to which a government is bound to observe constraints imposed on the use of the resources in governmental funds. The fund balances are classified as nonspendable, restricted, committed, assigned and unassigned.

Nonspendable fund balance represents amounts that are not in a spendable form. The School District's nonspendable fund balance represents inventories and prepaid expenditures. In the fund financial statements, governmental funds report restrictions on fund balances for amounts that are legally restricted by outside parties for a specific purpose. Committed fund balance represents funds formally set aside by the School District for a particular purpose. The use of committed funds would be approved by the Board of Education through the budget process or official board action.

Assigned fund balance would represent tentative management plans that are subject to change which at the present time the School District does not have any assigned fund balance. The School District's intent would be to spend uncommitted/unassigned funds prior to the use of committed funds. When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

Deferred Outflows and 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. For district-wide financial statements, the School District reports deferred outflows of resources related to pensions and other postemployment benefits. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension and other postemployment benefits liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. The School District also reported deferred outflows of resources for pension and other postemployment benefits contributions made after the measurement date. This amount will reduce the net pension liability in the following year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows - In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. There are the deferred gain on refunding and pension contributions reported in the government-wide statement of net position. Unavailable revenue arises only under a modified accrual basis of accounting. Accordingly, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from receipts that are received after 60 days of year end. These amounts are deferred and recognized as inflow of resources in the period that the amounts become available. For district-wide financial statements, the School District reports deferred inflows of resources related to pensions and other postemployment benefits. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension and other postemployment benefits expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. Deferred inflows of resources also includes revenue received relating to Section 147c state aid deferred to offset the deferred outflows related to Section 147c pension contributions subsequent to the measurement period.

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

Property taxes - For the taxpayers of the School District, properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1. The final collection date is February 28, after which uncollected taxes are added to the County delinquent tax rolls.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2017 - August 2018. The local revenue is recognized as outlined in Note 1. Amounts receivable from the State of Michigan at June 30, 2018 relating to state aid is $2,162,109.

The School 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.

Events Occurring After Reporting Date

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying Independent Auditor's Report, which is the date the financial statements were available to be issued.

NOTE 2 - BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of school districts prior to the expenditure of monies in a fiscal year.

NOTE 2 - BUDGETS (CONTINUED)

West Branch-Rose City Area Schools follow these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board of Education a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.

2. A public hearing is conducted to obtain taxpayer comments.

3. Budgeted amounts are as originally adopted, or as amended by the Board of Education throughout the year. Budgets are adopted to the functional level.

4. Appropriations lapse at year-end and therefore cancels all encumbrances. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the General Fund are noted in the required supplementary information section.

NOTE 3 - CASH AND INVESTMENTS

Some statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and Investments	$ 7,812,219	$ 299,967	$ 8,112,186

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

Deposits (checking and savings accounts, certificates of deposit)	$ 8,112,186

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Interest Rate Risk
In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

Credit Risk
State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2018, the School District's investment in the investment pool was rated AAA by Standard & Poor's.

Custodial Credit Risk - Deposits
In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2018, $3,427,625 of the School District's bank balance of $8,436,190 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

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

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

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

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

NOTE 4 - CAPITAL ASSETS

A summary of changes in governmental capital assets follows:

	Balance June 30, 2017	Additions	Disposals and Adjustments	Balance June 30, 2018
Assets not being depreciated:				
Land	$ 327,981	$ 0	$ 0	$ 327,981
Construction in progress	579,047	26,125	(579,047)	26,125
Subtotal	907,028	26,125	(579,047)	354,106
Capital assets being depreciated:				
Buildings and improvements	30,341,881	692,631	0	31,034,512
Buses and other vehicles	2,433,727	113,290	(85,000)	2,462,017
Furniture and equipment	11,752,423	472,648	(18,444)	12,206,627
Subtotal	44,528,031	1,278,569	(103,444)	45,703,156
Accumulated depreciation:				
Buildings and improvements	14,988,610	686,692	0	15,675,302
Buses and other vehicles	1,843,139	119,993	(85,000)	1,878,132
Furniture and equipment	11,307,719	106,359	(18,444)	11,395,634
Subtotal	28,139,468	913,044	(103,444)	28,949,068
Net capital assets being depreciated	16,388,563	365,525	0	16,754,088
Net capital assets	$ 17,295,591	$ 391,650	$ (579,047)	$ 17,108,194

Depreciation expense for fiscal year ended June 30, 2018 was $913,044. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A summary of interfund receivable and payable balances at June 30, 2018 are as follows:

		Payables			
		General	Food Service	Student Activity	Total
Receivables	General	$ 0	$ 16,440	$ 161	$ 16,601
	Food Service	447,196	0	0	447,196
		$ 447,196	$ 16,440	$ 161	$ 463,797

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

A summary of interfund transfers made during the year ended June 30, 2018 are as follows:

		Transfers Out		
		General	Food Service	Total
Transfers In	General	$ 0	$ 16,440	$ 16,440
	Food Service	10,400	0	10,400
		$ 10,400	$ 16,440	$ 26,840

These interfund receivable and payable balances resulted from the time lag between the dates that; (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The interfund transfers resulted from indirect cost reimbursement from Food Service to General Fund and At-Risk breakfast transfer from General Fund to Food Service.

NOTE 6 - UNEARNED REVENUE

Governmental funds report unearned revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also reflect unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, grant and categorical aid payments received prior to meeting all eligibility requirements amounted to $212,910.

NOTE 7 - LONG-TERM DEBT

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

	Balance June 30, 2017	Additions	Retirements and Payments	Balance June 30, 2018	Amount Due Within One Year
Bonds	$ 8,310,000	$ 0	$ 1,025,000	$ 7,285,000	$ 1,070,000
Compensated absences	203,501	0	34,233	169,268	0
	$ 8,513,501	$ 0	$ 1,059,233	7,454,268	1,070,000
Bond premium				986,688	0
Total				$ 8,440,956	$ 1,070,000

NOTE 7 - LONG-TERM DEBT (CONTINUED)

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

$10,245,000, 2015 Refunding of School Building & Site Bonds due in annual installments of $950,000 to $1,365,000 through May 1, 2024; interest at 3.00% to 5.00%	$ 7,285,000

Compensated absences (unused sick pay) is calculated using the termination payoff rate of $75 for eligible certified personnel for every two unused days (maximum 189 days) and 20% of the pay rate for eligible hourly personnel times the number of unused days (maximum of 104 days). At June 30, 2018, the amount of $169,268 has been reflected in the district-wide financial statements as compensated absences.

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

Year Ended June 30	Principal	Interest	Total
2019	$ 1,070,000	$ 364,250	$ 1,434,250
2020	1,125,000	310,750	1,435,750
2021	1,180,000	254,500	1,434,500
2022	1,240,000	195,500	1,435,500
2023	1,305,000	133,500	1,438,500
2024	1,365,000	68,250	1,433,250
	$ 7,285,000	$ 1,326,750	$ 8,611,750

NOTE 8 - 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 medical claims and participates in the SET-SEG risk pool for claims relating to workers' compensation. Since the School District began participating in the SET-SEG program, settled claims have not exceeded the amount of insurance coverage.

The SET-SEG shared-risk pool program in which the School District participates, operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase workers' compensation excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 9 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (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. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at http://michigan.gov/mpsers-cafr.

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

Benefits Provided - Overall

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

Plan Name	Plan Type	Plan Status
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined Contribution	Open

Benefits Provided - Pension

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

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

NOTE 9 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (CONTINUED)

Pension Reform 2010

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

Pension Reform 2012

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

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

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

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

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

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

NOTE 9 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (CONTINUED)

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

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

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

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

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

Pension Reform of 2017

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

NOTE 9 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (CONTINUED)

Benefits Provided – Other postemployment benefit (OPEB)

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

Retiree Healthcare Reform of 2012

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

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

Regular Retirement (no reduction factor for age)

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

NOTE 9 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (CONTINUED)

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

Member Contributions

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

Employer Contributions

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

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

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

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

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

The School District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately $2,906,000, with $2,720,000 specifically for the Defined Benefit Plan.

The School District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total. OPEB benefits were approximately $768,000, with $730,000 specifically for the Defined Benefit Plan.

NOTE 9 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (CONTINUED)

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

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

Pension Liabilities

At June 30, 2018, the School District reported a liability of $27,624,745 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the School District's proportion was 0.10660 and 0.10546 percent.

MPSERS (Plan) Net Pension Liability - As of September 30, 2017:

MPSERS (Plan) Non-University Employers:		September 30, 2017		September 30, 2016
Total Pension Liability	$	73,501,296,000	$	67,917,445,000
Plan Fiduciary Net Position	$	47,011,783,000	$	42,968,263,000
Net Pension Liability	$	26,489,513,000	$	24,949,182,000
Proportionate share		0.10660 %		0.10546 %
Net Pension liability for the School District	$	27,624,745	$	26,312,395

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 approximately $1,657,000.

NOTE 9 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (CONTINUED)

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

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between expected and actual experience	$ 240,078	$ (135,549)
Net difference between projected and actual earnings on pension plan investments	0	(1,320,645)
Changes in assumptions	3,026,510	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	455,418	(700,118)
Unearned revenue related to pension portion of section 147 c	0	(1,101,466)
Reporting Unit contributions subsequent to the measurement date	2,295,433	0
Total	$ 6,017,439	$ (3,257,778)

$2,295,433, reported as deferred outflows of resources related to pensions resulting from School District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

Year Ended June 30	Amount
2019	$ 263,135
2020	814,735
2021	488,402
2022	(578)
	$ 1,565,694

NOTE 9 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (CONTINUED)

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

OPEB Liabilities

At June 30, 2018, the School District reported a liability of $9,429,582 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The School District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the School District's proportion was 0.10648 and 0.10648 percent.

MPSERS (Plan) Non-University Employers:		September 30, 2017
Total OPEB Liability	$	14,175,547,000
Plan Fiduciary Net Position	$	5,177,775,000
Net OPEB Liability	$	8,997,772,000
Proportionate share		0.10648 %
Net OPEB liability for the School District	$	9,429,582

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

For the year ended June 30, 2018, the School District recognized OPEB expense of approximately $270,000.

NOTE 9 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (CONTINUED)

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

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference between expected and actual experience	$ 0	$ (100,397)
Net difference between projected and actual plan investment	0	(218,391)
Changes of assumption	0	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	69,142	0
School District's contributions subsequent to the measurement date	541,884	0
Total	$ 611,026	$ (318,788)

$541,884, reported as deferred outflows of resources related to OPEB resulting from School District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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

Year Ended September 30	Amount
2019	$ (61,583)
2020	(61,583)
2021	(61,583)
2022	(61,583)
2023	(3,314)
	$ (249,646)

Actuarial Assumptions

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

NOTE 9 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (CONTINUED)

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

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

Inflation - 3.0%

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

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

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

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

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

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

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

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

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

NOTE 9 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (CONTINUED)

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

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

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

Pension Discount rate - The discount rate used to measure the total pension liability was 7.5% (7% for Pension Plus Plan). This discount rate was based on the long-term rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

NOTE 9 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (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 Pension Plus 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 than the current rate:

	Pension		
	1% Decrease (6.5-6.0%)	**Discount Rate (7.5-7.0%)**	**1% Increase (8.5-8.0%)**
School District's proportionate share of the net pension liability	$35,985,854	$27,624,745	$20,585,223

Sensitivity 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 Reporting Unit's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Other postemployment benefit		
	1% Decrease (6.5%)	**Discount Rate (7.5%)**	**1% Increase (8.5%)**
School District's proportionate share of the net other postemployment benefit liability	$11,044,766	$9,429,582	$8,058,796

NOTE 9 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (CONTINUED)

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

	Other postemployment benefit		
	1% Decrease (6.5% decreasing to 2.5%)	Healthcare cost trend rates (7.5% decreasing to 3.5%)	1% Increase (8.5% decreasing to 4.5%)
School District's proportionate share of the net OPEB liability	$7,985,588	$9,429,582	$11,069,136

Pension and OPEB Plan Fiduciary Net Position

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

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

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

NOTE 10 - GRANTS

The School District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the School District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. Based on prior experience, the School District administration believes such disallowance, if any, would be immaterial.

NOTE 11 - ECONOMIC DEPENDENCY

The School District received approximately 56% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

NOTE 12 - SHORT-TERM DEBT ACTIVITY

The School District issues state aid anticipation notes in advance of State of Michigan state aid payments, depositing the proceeds in its General Fund. These notes are necessary because the School District's cash flow obligation to operating expenses precede the collection of state aid.

	Beginning Balance	Issued	Redeemed	Ending Balance
State Aid Anticipation Note, Due August 22, 2017, accruing interest at .9900%	$ 2,500,000	$ 0	$ 2,500,000	$ 0
State Aid Anticipation Note, Due August 20, 2018, accruing interest at 1.4800%	0	1,000,000	0	1,000,000
	$ 2,500,000	$ 1,000,000	$ 2,500,000	$ 1,000,000

NOTE 13 - RECEIVABLES

Receivables at June 30, 2018 consist of accounts (fees), intergovernmental grants and interest.

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

State aid and grants	$ 2,162,109
Federal grants	1,237,305
COOR ISD	133,994
Other governments	148,028
	$ 3,681,436

NOTE 14 - NEW ACCOUNTING STANDARDS

For the year ended June 30, 2018, the School District implemented the following new pronouncements:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

Summary:

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

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

	Governmental activities
Net position (deficit) as previously stated, July 1, 2017	$ (11,248,705)
Adoption of GASB Statement 75:	
Net other postemployment benefit liability	(9,946,120)
Deferred outflows	690,923
Deferred inflows	(303,044)
	(9,558,241)
Net position as restated, July 1, 2017	$ (20,806,946)

NOTE 15 - TAX ABATEMENTS

Effective for the year ended June 30, 2017 the School District is required to disclose significant tax abatements as required by GASB statement 77 (Tax abatements).

The School District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions, Brownfield Redevelopment Agreements, and Payments in Lieu of Taxes (PILOT) granted by cities, villages and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield Redevelopment Agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties; PILOT programs apply to multiple unit housing for citizens of low income and the elderly.

The property taxes abated for all funds by municipality under these programs are as follows:

Municipality	Taxes Abated
Cumming Township	$ 77,722
City of West Branch	58,332
West Branch Township	3,107
City of Rose City	273
	$ 139,434

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

NOTE 16 - UPCOMING ACCOUNTING PRONOUNCEMENT

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

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

WEST BRANCH-ROSE CITY AREA SCHOOLS
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
Revenues				
Local sources				
Property taxes	$ 6,632,419	$ 6,701,725	$ 6,605,623	$ (96,102)
Other	286,947	421,057	1,820,577	1,399,520
State sources	12,021,226	12,617,456	12,572,403	(45,053)
Federal sources	1,623,127	1,502,137	1,449,073	(53,064)
Total revenues	20,563,719	21,242,375	22,447,676	1,205,301
Expenditures				
Instruction:				
Basic programs	9,084,696	8,669,280	8,786,325	(117,045)
Added needs	3,549,689	3,256,923	3,005,244	251,679
Support services:				
Pupil	1,081,002	1,045,820	989,322	56,498
Instructional staff	893,676	1,160,011	1,070,702	89,309
General administrative	406,391	357,986	344,663	13,323
School administrative	1,014,565	1,085,603	1,086,211	(608)
Business services	439,113	370,837	369,279	1,558
Operations and maintenance	2,023,609	2,205,859	2,236,283	(30,424)
Transportation	1,377,131	1,384,506	1,378,910	5,596
Central services	504,991	630,014	659,602	(29,588)
Athletics	370,064	405,119	405,002	117
Community services	82,122	97,149	57,214	39,935
Total expenditures	20,827,049	20,669,107	20,388,757	280,350
Excess (deficiency) of revenues over expenditures	(263,330)	573,268	2,058,919	1,485,651
Other Financing Sources (Uses)				
Operating transfers out	(11,000)	(11,000)	(10,400)	600
Operating transfers in	31,059	8,300	16,440	8,140
Total other financing sources (uses)	20,059	(2,700)	6,040	8,740
Net change in fund balance	(243,271)	570,568	2,064,959	1,494,391
Fund balance - beginning of year	5,238,782	5,238,782	5,238,782	0
Fund balance - end of year	$ 4,995,511	$ 5,809,350	$ 7,303,741	$ 1,494,391

WEST BRANCH-ROSE CITY AREA SCHOOLS
Required Supplemental Information
Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	2017	**2016**	**2015**	**2014**
Reporting unit's proportion of net pension liability (%)	0.10660 %	0.10546 %	0.10498 %	0.11020 %
Reporting unit's proportionate share of net pension liability	$27,624,745	$26,312,395	$25,640,257	$24,273,823
Reporting unit's covered-employee payroll*	$ 8,957,269	$ 8,298,261	$ 8,751,899	$ 9,352,750
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	32.42480 %	31.53746 %	34.13343 %	38.53019 %
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	64.21000 %	63.27000 %	62.92000 %	66.15000 %

* The employer's covered payroll is defined by GASB 82, *Pension Issues - an amendment to GASB Statements No. 67, No. 68, and No. 73,* as payroll on which contributions to a pension plan are based. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 68 in 2015, the 10 year history will be provided prospectively until a full 10 year history is shown.

WEST BRANCH-ROSE CITY AREA SCHOOLS
Required Supplemental Information
Schedule of the Reporting Unit's Pension Contributions
Michigan Public School Employees Retirement Plan
Last 10 Reporting Unit Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	2018	**2017**	**2016**	**2015**
Statutorily required contributions	$ 2,719,937	$ 2,480,787	$ 2,346,604	$ 2,044,593
Contributions in relation to statutorily required contributions*	2,719,937	2,480,787	2,346,604	2,044,593
Contribution deficiency (excess)	$ 0	$ 0	$ 0	$ 0
Reporting unit's covered-employee payroll**	$ 9,051,832	$ 8,826,542	$ 8,608,188	$ 9,260,225
Contributions as a percentage of covered-employee payroll	30.05 %	28.11 %	27.26 %	22.08 %

* Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

** The employer's covered payroll is defined by GASB 82, *Pension Issues - an amendment to GASB Statements No. 67, No. 68, and No. 73,* as payroll on which contributions to a pension plan are based. For non-university employers, covered payroll for both pensions and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 68 in 2015, the 10 year history will be provided prospectively until a full 10 year history is shown.

WEST BRANCH-ROSE CITY AREA SCHOOLS
Required Supplemental Information
Schedule of the Reporting Unit's Proportionate Share of the Net OPEB Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

		2017
Reporting unit's proportion of net OPEB liability (%)		0.10648 %
Reporting unit's proportionate share of net OPEB liability	$	9,429,582
Reporting unit's covered-employee payroll*	$	8,957,269
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll		94.99116 %
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)		36.39000 %

* The employer's covered payroll is defined by GASB 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 75 in 2018, the 10 year history will be provided prospectively until a full 10 year history is shown.

WEST BRANCH-ROSE CITY AREA SCHOOLS
Required Supplemental Information
Schedule of the Reporting Unit's OPEB Contributions
Michigan Public School Employees Retirement Plan
Last 10 Reporting Unit Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	2018
Statutorily required contributions	$ 729,719
Contributions in relation to statutorily required contributions*	729,719
Contribution deficiency (excess)	$ 0
Reporting unit's covered-employee payroll**	$ 9,051,832
Contributions as a percentage of covered-employee payroll	8.06 %

* Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

** The employer's covered payroll is defined by GASB 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 75 in 2018, the 10 year history will be provided prospectively until a full 10 year history is shown.

WEST BRANCH-ROSE CITY AREA SCHOOLS
Notes to Required Supplementary Information
For the Year Ended June 30, 2018

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

Changes of assumptions: Assumption changes are a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

WEST BRANCH-ROSE CITY AREA SCHOOLS
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

	Special Revenue Fund	Debt Service Fund	
	Food Service	2015 Debt Retirement	Total
Assets			
Cash and investments	$ 289,906	$ 323,991	$ 613,897
Due from other governmental units	8,536	20,230	28,766
Receivables - net:			
Accounts receivable	3,262	0	3,262
Due from other funds	447,196	0	447,196
Inventory	22,404	0	22,404
Prepaid expenditures	77,000	0	77,000
Total assets	$ 848,304	$ 344,221	$ 1,192,525
Liabilities and Fund Balance			
Liabilities			
Accounts payable	$ 135,142	$ 0	$ 135,142
Due to other funds	16,440	0	16,440
Total liabilities	151,582	0	151,582
Fund Balance			
Non-spendable - inventory	22,404	0	22,404
Non-spendable - prepaid	77,000	0	77,000
Restricted for debt service	0	344,221	344,221
Restricted for food service	597,318	0	597,318
Total fund balance	696,722	344,221	1,040,943
	$ 848,304	$ 344,221	$ 1,192,525

WEST BRANCH-ROSE CITY AREA SCHOOLS
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2018

	Special Revenue Fund	Debt Service Fund	
	Food Service	2015 Debt Retirement	Total
Revenues			
Local sources			
Property taxes	$ 0	$ 1,441,996	$ 1,441,996
Other	173,054	1,199	174,253
State sources	60,160	29,635	89,795
Federal sources	1,186,835	1,530	1,188,365
Total revenues	1,420,049	1,474,360	2,894,409
Expenditures			
Current:			
Food services	1,396,280	0	1,396,280
Principal	0	1,025,000	1,025,000
Interest and other	0	405,250	405,250
Miscellaneous	0	730	730
Total expenditures	1,396,280	1,430,980	2,827,260
Excess (deficiency) of revenues over expenditures	23,769	43,380	67,149
Other Financing Sources (Uses)			
Operating transfers out	(16,440)	0	(16,440)
Operating transfers in	10,400	0	10,400
Total other financing sources (uses)	(6,040)	0	(6,040)
Net change in fund balance	17,729	43,380	61,109
Fund balance - beginning of year	678,993	300,841	979,834
Fund balance - end of year	$ 696,722	$ 344,221	$ 1,040,943

WEST BRANCH-ROSE CITY AREA SCHOOLS
Other Supplemental Information
Schedule of Bonded Indebtedness - 2015 Refunding Bonds
For the Year Ended June 30, 2018

PURPOSE

The School District issued the 2015 Refunding General Obligation School Building and Site Bond Issue on March 28, 2015, in the amount of $10,245,000 plus a premium of $1,567,091 for a net issuance of $11,812,091. The principal and interest on this bond issue is financed primarily from property taxes. The bonds, dated March 28, 2015, which bear interest at 3 to 5 percent are due serially through 2024. The bond proceeds were used to refund the 2005 General Obligation School Building and Site Bond Issue for the purpose of erecting, furnishing and equipping additions to, and partially remodeling, furnishing and re-furnishing, equipping and re-equipping existing school facilities; acquiring, installing and equipping technology for school facilities; replacing bleachers and construction of a press box at the high school football field; and developing and improving sites.

DATE OF ISSUE

March 28, 2015

AMOUNT OF ISSUE		$ 10,245,000
AMOUNT OF REDEEMED		
During prior years	$ 1,935,000	
During current year	1,025,000	2,960,000
BALANCE OUTSTANDING - June 30, 2018		$ 7,285,000

Fiscal Year	Interest Rate	Requirements Principal	Interest	Total
2019	4.00%	$ 1,070,000	$ 364,250	$ 1,434,250
2020	4.00%	1,125,000	310,750	1,435,750
2021	5.00%	1,180,000	254,500	1,434,500
2022	5.00%	1,240,000	195,500	1,435,500
2023	5.00%	1,305,000	133,500	1,438,500
2024	5.00%	1,365,000	68,250	1,433,250
		$ 7,285,000	$ 1,326,750	$ 8,611,750

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WEINLANDER FITZHUGH
CERTIFIED PUBLIC ACCOUNTANTS
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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

September 17, 2018

Board of Education
West Branch-Rose City Area Schools
West Branch, Michigan

We have audited, in accordance with U.S. generally accepted auditing standards 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 West Branch-Rose City Area Schools (School District), as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise West Branch-Rose City Area Schools' basic financial statements and have issued our report thereon dated September 17, 2018.

Internal Control Over Financial Reporting

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

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

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

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Board of Education
West Branch-Rose City Area Schools
September 17, 2018

Compliance and Other Matters

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

Purpose of this Report

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

Weinlander Fitzhugh

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

September 17, 2018

Board of Education
West Branch-Rose City Area Schools
West Branch, Michigan

Report on Compliance for Each Major Federal Program

We have audited West Branch-Rose City Area 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 West Branch-Rose City Area Schools' major federal programs for the year ended June 30, 2018. West Branch-Rose City Area Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of West Branch-Rose City Area 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 U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* 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 West Branch-Rose City Area 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 West Branch-Rose City Area Schools' compliance.

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West Branch-Rose City Area Schools
September 17, 2018

Opinion on Each Major Federal Program

In our opinion, West Branch-Rose City Area 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.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

West Branch-Rose City Area Schools' response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. West Branch-Rose City Area Schools' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of West Branch-Rose City Area 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 West Branch-Rose City Area 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 West Branch-Rose City Area Schools' internal control over compliance.

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

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

Board of Education
West Branch-Rose City Area Schools
September 17, 2018

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.

Weinlander Fitzhugh

WEST BRANCH-ROSE CITY AREA SCHOOLS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

SECTION I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified opinion

Internal control over financial reporting:

- Material weakness(es) identified? ☐ YES ☑ NO
- Significant deficiency(ies) identified? ☐ YES ☑ NONE REPORTED

Noncompliance material to financial statements noted? ☐ YES ☑ NO

Federal Awards

Internal Control over major programs:

- Material weakness(es) identified? ☐ YES ☑ NO
- Significant deficiency(ies) identified? ☐ YES ☑ NONE REPORTED

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☑ YES ☐ NO

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 - 10.559	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? ☑ YES ☐ NO

SECTION II - Financial Statement Findings

There are no matters reported.

SECTION III - Federal Award Findings and Questioned Costs

2018-001 (Repeating finding 2017-001)

Program
Nutrition Cluster - National School Breakfast and National School Lunch, U.S. Department of Agriculture, passed through Michigan Department of Education. CFDA # 10.553, 10.555, 10.558 and 10.559.

Criteria
Federal register section 7 CFR Part 210.14b requires School Districts to limit its School Breakfast and Lunch fund net resources to an amount that does not exceed three months of average expenditures.

Condition
The School District's net cash resources exceeded three months of average expenditures at June 30, 2018.

Questioned costs
None

Context
The School District did not meet the three months of average expenditure test at June 30, 2018.

Effect
Management did not monitor net cash resources and their spend down plan to ensure that they did not exceed three months of average expenditures. The School District's net cash resources were in excess of three months over expenditures by $275,267.

Cause
Management did not monitor net cash resources and their spend down plan to ensure that they did not exceed three months of average expenditures. The School District's net cash resources were in excess of three months over expenditures by $275,267.

Recommendation
We recommend that the School District review their Food Service Fund's net cash resources periodically throughout the school year to ensure that the fund will not have an excess of three months of average expenditures at the fiscal year end and that the School District closely monitors their spend down plan with the Michigan Department of Education. The School District should also take this requirement into consideration when preparing the annual budget and any subsequent adjustments to the budget.

Views of the Responsible Officials and Planned Corrective Action
The Superintendent, Director of Finance and Food Service Director will meet prior to the end of October 2018 to develop an outline of a purchasing/use of funds plan. This plan will be presented to the Board of Education Finance Committee in November for discussion and modifications. Subsequent to the Finance Committee meeting, the Superintendent, Director of Finance and Food Service Director will make any necessary modifications and present the final plan to the Board of Education Finance Committee in December. The final plan will then be presented to the Board of Education at the regular December board meeting for approval. Once the Board of Education has approved the plan, purchasing/use of funds will begin and be completed by June 30, 2019.

WEST BRANCH-ROSE CITY AREA SCHOOLS
Summary Schedule of Prior Year Findings
For the Year Ended June 30, 2018

2017-001

Audit Finding
Refer to repeating finding 2018-001 for details.

Corrective Action Taken
Corrective action plans were not implemented.

WEST BRANCH-ROSE CITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2017	Adjustments	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2018
U.S. Department of Agriculture								
Passed through Michigan Department of Education:								
Child Nutrition Cluster:								
National School Breakfast Program	10.553							
171970 Breakfast (2016-2017)		$ 309,800	$ 278,087	$ 54,394	$ 0	$ 86,107	$ 31,713	$ 0
181970 Breakfast (2017-2018)		295,681	0	0	0	231,872	295,683	63,811
			278,087	54,394	0	317,979	327,396	63,811
National School Lunch Program	10.555							
Cash:								
171980 Snack (2016-2017)		21,426	18,760	4,200	0	6,866	2,666	0
181980 Snack (2017-2018)		25,645	0	0	0	20,179	25,646	5,467
171960 Lunch (2016-2017)		522,580	469,205	89,928	0	143,304	53,376	0
181960 Lunch (2017-2018)		469,204	0	0	0	401,047	512,793	111,746
			487,965	94,128	0	571,396	594,481	117,213
Non-Cash Assistance (Commodities)	10.555							
Entitlement		64,383	0	0	0	80,084	80,084	0
CACFP Meals	10.558							
171920		140,921	129,377	47,246	0	58,790	11,544	0
181920		133,553	0	0	0	108,999	133,553	24,554
172010		9,080	9,080	3,318	0	4,130	812	0
182010		9,080	0	0	0	7,560	9,273	1,713
			138,457	50,564	0	179,479	155,182	26,267
SFSP Operating	10.559							
170900		26,655	5,284	5,284	0	26,655	21,371	0
180900		5,525	0	0	0	0	5,525	5,525
171900		2,767	544	544	0	2,767	2,223	0
181900		573	0	0	0	0	573	573
			5,828	5,828	0	29,422	29,692	6,098
Total Child Nutrition Cluster			910,337	204,914	0	1,178,360	1,186,835	213,389

See accompanying notes to Schedule of Expenditures of Federal Awards

WEST BRANCH-ROSE CITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2017	Adjustments	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2018
Passed through Ogemaw County								
Farm Tenant Aid/USDA	10.665	$ 4,574	$ 3,342	$ 0	$ 0	$ 4,574	$ 4,574	$ 0
Schools and Roads - Grants to States	10.665	19,884	0	0	0	19,885	19,885	0
Fish and Wildlife Coordination Act	15.517	4,221	0	0	0	4,221	4,221	0
Total passed through Ogemaw County			3,342	0	0	28,680	28,680	0
Passed through Gladwin County								
Grassland Reserve Program	10.920	78	126	0	0	78	78	0
Fish and Wildlife Coordination Act	15.517	991	0	0	0	991	991	0
Total passed through Gladwin County			126	0	0	1,069	1,069	0
Passed through Oscoda County								
Schools and Roads - Grants to States	10.665	155	0	0	0	155	155	0
Total passed through Oscoda County			0	0	0	155	155	0
Total U.S. Department of Agriculture			913,805	204,914	0	1,208,264	1,216,739	213,389
U.S. Department of Education								
Passed through Michigan								
Department of Education:								
ECIA Title I -								
Improving Basic Programs	84.010							
Project 171530-1617		887,111	692,784	308,171	0	370,923	62,752	0
Project 181530-1718		822,854	0	0	0	309,423	811,476	502,053
			692,784	308,171	0	680,346	874,228	502,053
Title VI-Part B:	84.358							
Project 170660-1617		41,142	41,142	41,142	0	41,142	0	0
Project 180660-1718		41,142	0	0	0	0	34,084	34,084
			41,142	41,142	0	41,142	34,084	34,084

See accompanying notes to Schedule of Expenditures of Federal Awards

WEST BRANCH-ROSE CITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2017	Adjustments	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2018
Improving Teacher Quality	84.367							
Project 170520-1617		$ 206,173	$ 193,956	$ 32,033	$ 0	$ 42,336	$ 10,303	$ 0
Project 180520-1718		124,447	0	0	0	14,305	70,371	56,066
			193,956	32,033	0	56,641	80,674	56,066
Total programs passed through MDE			927,882	381,346	0	778,129	988,986	592,203
Passed through COOR ISD:								
Handicapped Preschool & School Program	84.027							
PL 94-142 IDEA Flowthrough								
2016-2017		426,875	426,875	268,105	0	268,105	0	0
2017-2018		423,137	0	0	0	0	423,137	423,137
			426,875	268,105	0	268,105	423,137	423,137
Infant & Toddlers - Early intervention	84.181							
2016-2017		8,762	8,762	8,762	0	8,762	0	0
2017-2018		7,941	0	0	0	0	7,941	7,941
			8,762	8,762	0	8,762	7,941	7,941
Perkins - Project 183520-1718-6	84.048	635	0	0	0	0	635	635
Total programs passed through COOR ISD			435,637	276,867	0	276,867	431,713	431,713
Total U.S. Department of Education			1,363,519	658,213	0	1,054,996	1,420,699	1,023,916
			$ 2,277,324	$ 863,127	$ 0	$ 2,263,260	$ 2,637,438	$ 1,237,305

See accompanying notes to Schedule of Expenditures of Federal Awards

WEST BRANCH-ROSE CITY AREA SCHOOLS
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of West Branch-Rose City Area Schools under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of West Branch-Rose City Area Schools, it is not intended to and does not present the financial position or changes in net position of West Branch-Rose City Area Schools.

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the Schedule represent adjustments or credit made in the normal course of business to amounts reported as expenditures.

The School District has elected not to use the 10 percent de minimus indirect cost rate to recover costs as allowed under the Uniform Guidance.

The School District does not have any subrecipients.

NOTE 2 - OTHER DISCLOSURES

Management has utilized the Cash Management System Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

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WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

September 17, 2018

Board of Education
West Branch-Rose City Area Schools
West Branch, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of West Branch-Rose City Area Schools (School District) for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under U.S. generally accepted auditing standards, Government Auditing Standards and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 27, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by West Branch-Rose City Area Schools are described in Note 1 to the financial statements. During 2018, the School District implemented Governmental Accounting Standard Board No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*s. The application of existing policies was not changed during 2018. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

> Estimates have been used to calculate the net pension liability and the net other postemployment benefit liability.
>
> Management’s estimate of depreciation is based on the estimated useful life of fixed assets. We evaluated the key factors and assumptions used to develop the estimated useful life of fixed assets in determining that depreciation is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 17, 2018.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the budgetary comparison schedule for the General Fund, schedule of the reporting unit's proportionate share of the net pension liability, schedule of the reporting unit's pension contributions, schedule of the reporting unit's proportionate share of the net OPEB liability, schedule of the reporting unit's OPEB contributions and notes to the required supplementary information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the schedule of expenditures of federal awards, combining non-major fund financial statements and schedule of bonded indebtness, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

A separate management letter was not issued.

Restriction on Use

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

Very truly yours

Weinlander Fitzhugh

WEST BRANCH-ROSE CITY AREA SCHOOLS

Phil Mikulski, Superintendent

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WEST BRANCH-ROSE CITY AREA SCHOOLS
CORRECTIVE ACTION PLAN
June 30, 2018

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	The Superintendent, Director of Finance and Food Service Director will meet prior to the end of October 2018 to develop an outline of a purchasing/use of funds plan. This plan will be presented to the Board of Education Finance Committee in November for discussion and modifications. Subsequent to the Finance Committee meeting, the Superintendent, Director of Finance and Food Service Director will make any necessary modifications and present the final plan to the Board of Education Finance Committee in December. The final plan will then be presented to the Board of Education at the regular December board meeting for approval. Once the Board of Education has approved the plan, purchasing/use of funds will begin and be completed by June 30, 2019.	6/30/2019	Philip Mikulski, Superintendent, Ted Matuszak, Director of Finance and Janis Phillips, Food Service Director