

Cheboygan Area Schools

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

Year Ended June 30, 2018

Cheboygan Area Schools

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June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Cheboygan Area Schools

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of a Matter

As described in Note 1 to the financial statements, in the year ended June 30, 2018, the district adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Our opinion is not modified with respect to this matter.

Other Matters*Required Supplementary Information*

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

The additional supplementary information is 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 auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2018, on our consideration of Cheboygan Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cheboygan Area Schools' internal control over financial reporting and compliance.



Douglas Wohlberg, CPA
Byron Center, Michigan
October 21, 2018

Cheboygan Area Schools

Administration's Discussion and Analysis

Year Ended June 30, 2018

Cheboygan Area Schools is a K-12 School District located in Cheboygan and Presque Isle Counties, Michigan. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Cheboygan Area Schools District Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2018.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-Wide Financial Statements and Fund Financial Statements

Fund Financial Statements

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Fund, Capital Projects Funds, and the School Service Fund, which is comprised of Food Service, and various Activity accounts.

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District-Wide Financial Statements:

The District-wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short- and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Position of the District-wide financial statements.

Cheboygan Area Schools

Administration's Discussion and Analysis

Year Ended June 30, 2018

Summary of Net Position:

The following summarizes the net position at fiscal year ended June 30, 2018:

	2018	2017 - restated
Assets		
Current assets	\$ 4,055,220	\$ 4,102,172
Capital assets	15,197,919	15,027,064
Total assets	19,253,139	19,129,236
Deferred outflows of resources	4,359,437	3,129,918
Liabilities		
Current liabilities	2,641,759	2,686,437
Long-term liabilities	40,490,902	41,654,186
Total liabilities	43,132,661	44,340,623
Deferred inflows of resources	3,848,050	1,974,104
Net Position		
Invested in capital assets, net of related debt	10,631,396	8,950,059
Restricted:		
Food service	9,330	-
Debt service	84,180	101,147
Capital outlay	311,315	690,496
Unrestricted	(34,404,356)	(33,797,275)
Total net position	\$ (23,368,135)	\$ (24,055,573)

Analysis of Financial Position:

During fiscal year, the District's total net position increased by \$687,438. A few of the significant factors affecting net position during the year are discussed below:

1. Depreciation Expense

GASB 34 requires School Districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net position.

For fiscal year, the net increase in accumulated depreciation was \$990,430.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset less an estimated salvage value.

One way to think of depreciation expense is that in order to maintain net position at the same level, acquisitions of capital outlay and capitalized major maintenance projects would have to equal the annual depreciation expense. In other words, to stay even in net position the District would have had to capitalize an additional \$990,430 in assets during the year.

Cheboygan Area Schools

Administration's Discussion and Analysis

Year Ended June 30, 2018

2. Capital Outlay Acquisitions

Actual capital outlay acquisitions for the fiscal year were \$1,161,285. This is the purchase of four busses, the completion of lighting upgrades in all buildings in the district, and significant additions to the technology of the district.

Since accumulated depreciation is based on original cost, it does not take into consideration inflation. As a result, the actual investment in capital outlay would have to be more than depreciation expense in order to maintain assets at the same level of maintenance and upkeep.

3. Capital Outlay Dispositions

During the year, the District did not sell any significant capital assets.

4. Long Term Debt Reduction

The District is currently completing significant capital projects. The long-term liabilities for the District were reduced by \$1,152,746. When liabilities are decreased faster than capital assets depreciate, the result is an increase to net position.

5. Implementation of GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

Implementation of GASB 75 required a restatement of beginning net position for the net OPEB liability related to the defined benefit retirement plan. The plan is the Michigan Public School Employees' Retirement System (MPERS). This plan 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.

The above restatements had the following impact on previously reported balances.

Net position as previously reported	\$ (14,695,772)
<u>OPEB liability</u>	<u>(9,359,801)</u>
<u>Net position restated</u>	<u>\$ (24,055,573)</u>

Cheboygan Area Schools
Administration's Discussion and Analysis
Year Ended June 30, 2018

Results of Operations:

For the fiscal year the District-wide results of operations were:

	2018	% of Total	2017*	% of Total
General Revenues				
Michigan's Foundation Grant Allowance:				
Property taxes levied for general operations	\$ 5,433,542	27.3 %	\$ 5,280,608	26.2 %
State of Michigan Aid, unrestricted	7,174,304	36.1 %	7,594,256	37.8 %
Michigan's Foundation Grant Allowance	12,607,846	63.4 %	12,874,864	64.0 %
Property taxes levied for debt service	1,331,502	6.7 %	1,250,880	6.2 %
Property taxes levied for capital outlay	325,927	1.6 %	321,330	1.6 %
Other	115,082	0.6 %	173,576	0.9 %
Total General Revenues	14,380,357	72.3 %	14,620,650	72.7 %
Program Revenues				
Charges for services	614,957	3.1 %	608,149	3.0 %
Operating grants - Federal and State	4,902,690	24.6 %	4,900,932	24.3 %
Total Revenues	19,898,004	100.0 %	20,129,731	100.0 %
Expenses				
Instructional and instructional support	11,278,760	58.8 %	11,055,137	59.2 %
Support services	6,017,148	31.3 %	5,655,111	30.4 %
Food services	697,175	3.6 %	736,915	4.0 %
Community services	28,608	0.1 %	30,451	0.2 %
Interest on long-term debt	198,445	1.0 %	225,949	1.2 %
Depreciation (unallocated)	990,430	5.2 %	926,995	5.0 %
Total Expenses	19,210,566	100.0 %	18,630,558	100.0 %
Increase (Decrease) in Net Position	\$ 687,438		\$ 1,499,173	

*The District implemented GASB 75 during the year ended June 30, 2018. The impact on expenses for the year ended June 30, 2017 is unknown and, therefore, expenses for 2018 and 2017 are not comparable.

Cheboygan Area Schools

Administration's Discussion and Analysis

Year Ended June 30, 2018

Analysis of Results of Operations:

During fiscal year, the District's total net position increased by \$687,438. A few of the significant factors affecting the results of operations during the year are discussed below:

1. Property Taxes levied for General Operations (General Fund Property Taxes)

The District levies 18.0 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5%, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50% of the market value.

The District's non-homestead property levy for the fiscal year was \$5,393,929. The non-homestead tax levy increased by 2.77% over the prior year.

<u>Fiscal Year</u>		<u>Non-Pre Tax Levy</u>	<u>Percent change</u>
2017-2018	\$	5,393,929	2.77 %
2016-2017		5,248,537	1.23 %
2015-2016		5,184,552	0.04 %
2014-2015		5,182,421	2.77 %
2013-2014		5,042,559	0.76 %

The average increase over the last 5 years was 1.51%.

2. State Of Michigan Aid, Unrestricted

The State of Michigan aid, unrestricted is determined by the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 90% of current year fall count and 10% of prior year winter count
- c. The District's non-homestead levy

3. Per Student, Foundation Allowance:

Annually, the State of Michigan sets the per student foundation allowance. Cheboygan Area Schools' foundation allowance was \$7,631 per pupil for the school year. This was an increase of \$120 per pupil over the District's previous year foundation allowance.

Cheboygan Area Schools

Administration's Discussion and Analysis

Year Ended June 30, 2018

4. Student Enrollment:

The District's student blended enrollment for the year was 1,667 students. The District's enrollments have generally declined in the past five years. The following summarizes fall student enrollments in the past five years:

Fiscal Year	Student Membership	Increase (Decrease) Prior Year
2017-2018	1,667	(62)
2016-2017	1,729	(41)
2015-2016	1,770	(24)
2014-2015	1,794	(84)
2013-2014	1,878	(29)

Preliminary student enrollments for 2018-2019 indicate that enrollments will decrease slightly from 2017-2018.

5. Property Taxes levied for Debt Service:

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2017-2018, the District's debt millage levy was 2.28 mills, which generated revenue of \$1,331,502.

6. Food Service Sales to Students & Adults:

The District's Food Service revenues decreased from the previous year by approximately \$8,501 to \$719,849. School lunch and milk prices were raised from the previous year.

The total revenues from Food Service operations were greater than total expenditures for the year by \$22,676. The food service fund did not make any significant capital outlays during the year.

Cheboygan Area Schools

Administration's Discussion and Analysis

Year Ended June 30, 2018

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

General Fund Revenue Budget vs. Actual 5-Year History

Fiscal Year	Original Budget	Final Budget	Actual	Variance Actual & Original Budget	Variance Actual & Final Budget
2017-2018	\$ 17,358,695	\$ 17,833,043	\$ 17,483,853	0.72 %	(1.96)%
2016-2017	17,339,894	17,783,887	17,735,231	2.28 %	(0.27)%
2015-2016	16,883,900	17,480,956	17,248,536	2.16 %	(1.33)%
2014-2015	16,557,982	17,034,983	17,051,660	2.98 %	0.10 %
2013-2014	16,300,610	16,830,961	16,843,812	3.33 %	0.08 %

General Fund Expenditures Budget vs. Actual 5-Year History

Fiscal Year	Original Budget	Final Budget	Actual	Variance Actual & Original Budget	Variance Actual & Final Budget
2017-2018	\$ 16,971,686	\$ 17,650,919	\$ 17,123,922	(0.90)%	2.99 %
2016-2017	17,236,674	17,255,684	16,938,958	1.73 %	1.84 %
2015-2016	16,775,510	17,013,965	16,992,606	(1.29)%	0.13 %
2014-2015	17,654,461	17,906,095	17,312,045	1.94 %	3.32 %
2013-2014	16,680,028	17,903,309	18,256,933	(9.45)%	(1.98)%

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, Cheboygan Area Schools amends its budget twice during the school year. For fiscal year 2018-2019, the budget was amended in November and the final budget amendments were made in June.

Cheboygan Area Schools

Administration's Discussion and Analysis

Year Ended June 30, 2018

Change from Original to Final Budget

General Fund Revenues:

Total Revenues Original Budget	\$ 17,358,695
Total Revenues Final Budget	17,833,043
<u>Increase (Decrease) in Budgeted Revenues</u>	<u>\$ 474,348</u>

The District's actual general fund revenues were less than the final budget by \$349,190, a variance of 1.96%. The final revenue budget reflects the following changes from the original budget:

- Final budgeted local revenues were decreased by \$131,154 from the original budget.
- Final budgeted state revenues were increased by \$459,027 from the original. The majority of this increase was due to adjusting for categorical revenues such as MPSERS UAAL Rate Stabilization, At Risk, Vocational Education, and Skilled Trades/Dual Enrollment.
- Final budgeted federal revenues were decreased by \$159,104. This resulted from the finalization of federal grants.
- Intermediate revenues were increased by \$305,579. The majority of this increase was due to changes in funding from the COP-ESD.

General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$ 16,971,686
Total Expenditures Final Budget	17,650,919
<u>Increase (Decrease) in Budgeted Expenditures</u>	<u>\$ 679,233</u>

The District's actual expenditures differed from the final budget by \$526,997 or 2.99%. Some of the significant budget adjustments for the year include:

- The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, Cheboygan Area Schools amends its budget twice during the school year. For fiscal year 2017-2018, the budget was amended in November of 2017 and final budget amendments were made in June of 2018.
- Various line-items were adjusted slightly as student count and program expenses were finalized.
- Payments to non-public schools were adjusted once the program planning had been finalized.

Cheboygan Area Schools

Administration's Discussion and Analysis

Year Ended June 30, 2018

Conclusion:

In anticipation of shrinking revenues in the foreseeable future, the District's management is continuing to minimize expenses in most areas. Public Education has had difficulty maintaining programming over the last several years. Cheboygan Area Schools has been making several attempts to creatively come up with ways to maintain and enhance programming while maintaining financial health.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Cheboygan Area Schools' Business Office.

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BASIC FINANCIAL STATEMENTS

Cheboygan Area Schools

Statement of Net Position

June 30, 2018

	Governmental Activities
ASSETS	
Cash and investments	\$ 1,932,949
Accounts receivable	18,107
Intergovernmental receivable	2,079,129
Inventories	13,223
Prepaid expenses	11,812
Capital assets less accumulated depreciation of \$14,824,233	15,197,919
Total assets	19,253,139
DEFERRED OUTFLOWS OF RESOURCES	
Pension plan related	4,347,413
OPEB Healthcare related	12,024
Total deferred outflows of resources	4,359,437
LIABILITIES	
Accounts payable	43,974
Accrued payroll and other liabilities	1,365,082
Accrued interest	23,725
Unearned revenue	208,978
State aid note payable	1,000,000
Long-term liabilities:	
Bonds payable, due within one year	1,200,000
Compensated absences and severance liability	784,273
Bonds payable, due in more than one year	3,675,000
Net pension liability	25,957,917
OPEB healthcare liability	8,873,712
Total liabilities	43,132,661
DEFERRED INFLOWS OF RESOURCES	
Pension plan related	3,547,892
OPEB Healthcare related	300,158
Total deferred inflows of resources	3,848,050
NET POSITION	
Net investment in capital assets	10,631,396
Restricted:	
Food service	9,330
Debt service	84,180
Capital outlay	311,315
Unrestricted	(34,404,356)
Total net position	\$ (23,368,135)

The Notes to Financial Statements are an integral part of this statement.

Cheboygan Area Schools

Statement of Activities

For the year ended June 30, 2018

	Expenses	Program Revenues		Net (Expense)
		Charges for services	Operating grants and contributions	Revenue and Changes in Net Position
				Governmental activities
Functions/Programs:				
Governmental activities:				
Instruction	\$ 11,278,760	\$ 149,282	\$ 4,333,238	\$ (6,796,240)
Support services	6,017,148	291,573	2,280	(5,723,295)
Food service	697,175	149,582	567,172	19,579
Community services	28,608	24,520	-	(4,088)
Interest	198,445	-	-	(198,445)
Depreciation (unallocated)	990,430	-	-	(990,430)
Total governmental activities	\$ 19,210,566	\$ 614,957	\$ 4,902,690	(13,692,919)

General revenues

Taxes:

Property taxes, levied for general operations	5,433,542
Property taxes, levied for debt service	1,331,502
Property taxes, levied for capital outlay	325,927
State of Michigan aid, unrestricted	7,174,304
Interest and investment earnings	2,691
Other	106,174
Gain (loss) on sale of capital assets	6,217
Total general revenues	14,380,357

Change in net position	687,438
Net position-beginning	(24,055,573)
Net position-ending	\$ (23,368,135)

The Notes to Financial Statements are an integral part of this statement.

Cheboygan Area Schools

Governmental Funds

Balance Sheet

June 30, 2018

	General	Total Nonmajor Funds	Total Governmental Funds
ASSETS			
Cash and investments	\$ 1,516,448	\$ 416,501	\$ 1,932,949
Receivables	16,850	1,257	18,107
Due from other funds	28,343	-	28,343
Intergovernmental receivables	2,063,719	15,410	2,079,129
Inventories	-	13,223	13,223
Prepaid items	11,812	-	11,812
Total assets	\$ 3,637,172	\$ 446,391	\$ 4,083,563
LIABILITIES			
Accounts payable	\$ 43,974	\$ -	\$ 43,974
Accrued salaries and fringe benefits	1,365,082	-	1,365,082
Due to other funds	-	28,343	28,343
Unearned revenue	208,978	-	208,978
State aid note payable	1,000,000	-	1,000,000
Total liabilities	2,618,034	28,343	2,646,377
FUND BALANCES			
Nonspendable:			
Inventories	-	13,223	13,223
Prepaid items	11,812	-	11,812
Restricted:			
Food service	-	9,330	9,330
Debt service	-	84,180	84,180
Capital outlay	-	311,315	311,315
Assigned:			
Unassigned	1,007,326	-	1,007,326
Total fund balances	1,019,138	418,048	1,437,186
Total liabilities and fund balances	\$ 3,637,172	\$ 446,391	\$ 4,083,563

The Notes to Financial Statements are an integral part of this statement.

Cheboygan Area Schools

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

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances - total governmental funds	\$ 1,437,186
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	15,197,919
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. Balances at June 30, 2018 were:	
Bonds payable	(4,875,000)
Compensated absences	(784,273)
Net pension liability	(25,957,917)
OPEB Healthcare liability	(8,873,712)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Deferred Outflows of Resources:	
Pension related	4,347,413
OPEB Healthcare related	12,024
Deferred Inflows of Resources:	
Pension related	(3,547,892)
OPEB Healthcare related	(300,158)
Accrued interest is not included as a liability in governmental funds; it is recorded when paid	(23,725)
Total net position - governmental activities	\$ (23,368,135)

The Notes to Financial Statements are an integral part of this statement.

Cheboygan Area Schools

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the year ended June 30, 2018

	General	Total Nonmajor Funds	Total Governmental Funds
REVENUES			
Local sources	\$ 5,903,723	\$ 1,840,765	\$ 7,744,488
State sources	10,149,236	25,145	10,174,381
Federal sources	714,907	542,027	1,256,934
Incoming transfers and other transactions	715,987	-	715,987
Total revenues	17,483,853	2,407,937	19,891,790
EXPENDITURES			
Current:			
Instruction	11,041,730	-	11,041,730
Support services	5,865,618	-	5,865,618
Food service	-	697,175	697,175
Community activities	1,361	-	1,361
Non-public schools	27,247	-	27,247
Debt service	29,595	1,348,900	1,378,495
Capital outlay	140,761	735,334	876,095
Prior period adjustment	17,610	-	17,610
Total expenditures	17,123,922	2,781,409	19,905,331
Excess (deficiency) of revenues over expenses	359,931	(373,472)	(13,541)
OTHER FINANCING SOURCES (USES)			
Operating transfer in	-	40,000	40,000
Operating transfer out	(40,000)	-	(40,000)
Sale of capital assets	6,217	-	6,217
Total other financing sources (uses)	(33,783)	40,000	6,217
Net change in fund balances	326,148	(333,472)	(7,324)
Fund balances-beginning	692,990	751,520	1,444,510
Fund balances-ending	\$ 1,019,138	\$ 418,048	\$ 1,437,186

The Notes to Financial Statements are an integral part of this statement.

Cheboygan Area Schools

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the year ended June 30, 2018

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

Net change in fund balances - total governmental funds	\$ (7,324)
Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(990,430)
Capital outlay	1,161,284
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.	
	5,050
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities, where it reduces long-term debt.	
	1,175,000
Increases in compensated absences are reported as expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6.	
	(180,461)
Reductions of compensated absences is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).	
	148,207
Reductions of termination pay is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).	
	10,000
Governmental funds report pension contributions as expenditures. However, in the statement of activities, the pension expense is determined by the pension plan. This is the amount by which the pension expense exceeded the contributions.	
	(831,846)
Governmental funds report OPEB healthcare contributions as expenditures. However, in the statement of activities, the pension expense is determined by the pension plan. This is the amount by which the OPEB healthcare expense exceeded the contributions.	
	197,958
Change in net position of governmental activities	\$ 687,438

The Notes to Financial Statements are an integral part of this statement.

Cheboygan Area Schools

Agency Fund

Statement of Assets and Liabilities

June 30, 2018

ASSETS

Cash and investments	\$	462,246
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LIABILITIES

Due to student groups	\$	285,339
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Scholarships payable		176,907
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Total liabilities	\$	462,246
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The Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Cheboygan Area Schools

Notes to Financial Statements

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cheboygan Area Schools (the "School District") is located in Cheboygan and Presque Isle Counties. The School District is governed by an elected seven-member Board of Education. The accounting policies of Cheboygan Area Schools conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

A. Reporting Entity

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.

B. 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, normally 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 district-wide activities are considered governmental activities.

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

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

Cheboygan Area Schools

Notes to Financial Statements

June 30, 2018

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as 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. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

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

Revenues are recognized in the accounting period in which they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, unrestricted State aid, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

Cheboygan Area Schools

Notes to Financial Statements

June 30, 2018

The School District reports the following major governmental funds:

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

The 2015 Capital Projects Fund accounts for the debt proceeds and other resources accumulated to finance the acquisition of fixed assets or construction of major capital assets.

Additionally, the School District reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for the specified purposes. The School District's Special Revenue Fund accounts for the School District's food service activity. Any operating deficit generated by this activity is the responsibility of the General Fund.

Debt Service Funds account for property taxes and other revenues used to pay principal, interest, and fees related to long-term debt.

The 2015 Capital Projects Fund accounts for the debt proceeds and other resources accumulated to finance the acquisition of fixed assets or construction of major capital assets.

Sinking Fund accounts for property taxes and other resources accumulated to purchase or construct major capital assets.

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity for individuals or school-related organizations. The Agency Fund is custodial in nature and does not involve measurement of results of operations.

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

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.

Cheboygan Area Schools

Notes to Financial Statements

June 30, 2018

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

Bank Deposits and Investments

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

Receivables and Payables

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

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on February 15th of the following year, at which time penalties and interest are assessed.

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. United States Department of Agriculture Commodities inventory received by the Food Service Fund are recorded as inventory until used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized. The School District does not have infrastructure-type assets.

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

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings and additions	7-50 years
Furniture and other equipment	5-10 years
Buses and other vehicles	5-10 years

Cheboygan Area Schools

Notes to Financial Statements

June 30, 2018

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School District has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The School District has no items that qualify for reporting in this category.

Compensated Absences

The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated vacation and sick leave benefits. 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.

Use of Estimates

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

Other Financing Sources (Uses)

Transfers of cash between the various School District funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

Cheboygan Area Schools

Notes to Financial Statements

June 30, 2018

Net Position and Fund Balances

The difference between fund assets and liabilities is "Net Position" on the district-wide and fiduciary fund statements and "Fund Balances" on governmental fund statements. Net Position are classified as "Net investment in capital assets," legally "Restricted" for a specific purpose, or "Unrestricted" and available for appropriation for the general purposes of the fund. In governmental fund financial statements, fund balances are classified as follows:

- **Nonspendable**--Amounts that cannot be spent either because they are (a) not in spendable form; or (b) legally or contractually required to be maintained intact.
- **Restricted**--Amounts with constraints placed on the use of resources because they are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed**--Amounts that can be used only for specific purposes determined by a formal action by Board of Education resolution, and that remain binding unless removed in the same manner.
- **Assigned**--Amounts neither restricted nor committed for which a School District has a stated intended use as established by the Board of Education or a body or official to which the Board of Education has delegated the authority to assign amounts for specific purposes.
- **Unassigned**--Amounts that cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Use of Restricted Resources

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the School District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the School District's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications - committed and then assigned fund balances before using unassigned fund balances.

Comparative Data/Reclassifications

Comparative data is not included in the School District's financial statements.

E. Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as program revenues 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 revenues rather than as program revenues. Likewise, general revenues include all taxes and unrestricted State aid.

Property Taxes

The School District's 2017 ad valorem tax was levied and collectible on December 1. It is the School District's policy to recognize revenues from the current tax levy in the current year when the proceeds of this levy are budgeted and made available for financing operations. Taxes are considered delinquent on February 15th of the following year, at which time penalties and interest are assessed.

Cheboygan Area Schools

Notes to Financial Statements

June 30, 2018

F. Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (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.

G. Postemployment Benefits Other Than Pensions

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (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.

H. Change in Accounting Principle

Statements Number 74 and 75. Implementation of these new accounting standards required a restatement of beginning net position for the net OPEB liability related to the defined benefit retirement plan. The plan is the Michigan Public School Employees' Retirement System (MPSERS). This plan 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.

Previously GASB Statement Number 27 excluded this OPEB liability from the financial statements of the School District. The above restatements had the following impact on previously reported balances.

Net position as previously reported	\$ (14,695,772)
<u>OPEB liability</u>	<u>(9,359,801)</u>
<u>Net position restated</u>	<u>\$ (24,055,573)</u>

Cheboygan Area Schools

Notes to Financial Statements

June 30, 2018

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan Law. State law permits districts to amend their budgets during the year. During the year, the budgets were amended in a legally permissible manner.

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

Excess of Expenditures Over Appropriations in Budgeted Funds

For the year ended June 30, 2018, expenditures exceeded appropriations in the following departments (the legal level of budgetary control).

Fund and Activity	Budget Appropriation	Actual Expenditure	Excess Expenditure
General Fund:			
Basic programs	\$ 8,026,748	\$ 8,059,846	\$ 33,098
General administration	335,668	336,994	1,326
School administration	1,118,371	1,178,768	60,397
Prior period adjustments	5,000	17,610	12,610

Cheboygan Area Schools

Notes to Financial Statements

June 30, 2018

NOTE 3 - DEPOSITS AND INVESTMENTS

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

Deposits are carried at cost. The investment policy adopted by the Board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The School District's deposits and investment policy are in accordance with statutory authority.

As of June 30, 2018, the School District had the following deposits:

Citizens Bank	\$ 2,646,089
First Community Bank	45,073
Petty cash	2,375
Total	\$ 2,693,537

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	\$ 1,932,949	\$ 462,246	\$ 2,395,195

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Deposits

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the School District's deposits may not be recovered. At year end, the bank balance of the School District's deposits is \$2,693,537, of which \$940,523 is covered by federal depository insurance. The remaining \$1,753,014 is uninsured and uncollateralized.

Interest Rate Risk

The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

The School District places no limit on the amount the School District may invest in any one issuer. More than five percent of the School District's deposits are in Michigan Liquid Asset Fund, Citizens Bank and Huron National Bank. These investments are 98.2%, 1.7%, and 0.1% respectively, of the School District's total deposits.

Cheboygan Area Schools

Notes to Financial Statements

June 30, 2018

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the School District's governmental activities, for the year ended June 30, 2018, was as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 100,000	\$ -	\$ -	\$ 100,000
Capital assets, being depreciated:				
Buildings and improvements	25,327,661	648,566	-	25,976,227
Furniture and equipment	1,532,083	322,055	-	1,854,138
Buses and vehicles	1,901,123	190,664	-	2,091,787
Total capital assets, being depreciated	28,760,867	1,161,285	-	29,922,152
Less accumulated depreciation for:				
Buildings and improvements	12,182,048	568,681	-	12,750,729
Furniture and equipment	644,473	202,878	-	847,351
Buses and vehicles	1,007,282	218,871	-	1,226,153
Total accumulated depreciation	13,833,803	990,430	-	14,824,233
Total capital assets being depreciated, net	14,927,064	170,855	-	15,097,919
Governmental activities capital assets, net	\$ 15,027,064	\$ 170,855	\$ -	\$ 15,197,919

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

Cheboygan Area Schools

Notes to Financial Statements

June 30, 2018

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances, as of June 30, 2018, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	
	General	
Food Service	\$	28,343

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

NOTE 6 - INTERFUND TRANSFERS

The composition of interfund transfers, as of June 30, 2018, is as follows:

<u>Transfers Out Fund</u>	<u>Transfers In Fund</u>	
	Food Service	
General	\$	40,000

NOTE 7 - LONG-TERM DEBT

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General Obligation Bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences and purchase contracts.

The following is a summary of long-term debt transactions for the year ended June 30, 2018:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable	\$ 6,050,000	\$ -	\$ 1,175,000	\$ 4,875,000	\$ 1,200,000
Early retirement incentive	10,000	-	10,000	-	-
Compensated absences	752,019	180,461	148,207	784,273	-
Total long-term debt	\$ 6,812,019	\$ 180,461	\$ 1,333,207	\$ 5,659,273	\$ 1,200,000

The annual requirement to amortize long-term debt outstanding as of June 30, 2018 follows:

<u>Year Ended June 30,</u>	<u>Notes and Bonds Payable</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2019	\$ 1,200,000	\$ 142,350	\$ 1,342,350
2020	1,110,000	109,050	1,219,050
2021	1,130,000	76,250	1,206,250
2022	705,000	43,050	748,050
2023	730,000	21,900	751,900
Totals	\$ 4,875,000	\$ 392,600	\$ 5,267,600

Cheboygan Area Schools

Notes to Financial Statements

June 30, 2018

Governmental Activities:

Notes and bonds payable at June 30, 2018 were comprised of the following:

\$6,625,000 2008 Refunding General Obligation Bonds due in annual installments of \$530,000 through May 1, 2021, including interest at 3.75% to 4.00%	\$ 1,590,000
\$2,885,000 2014 Refunding General Obligation Bonds due in annual installments ranging from \$465,000 to \$520,000 through May 1, 2020, including interest at 1.50% to 2.00%	1,010,000
\$2,700,000 2015 School Building and Site Bonds due in annual installments ranging from \$90,000 to \$730,000 through May 1, 2023, including interest rate at 2.00% to 3.00%	2,275,000
<hr/>	
Total notes and bonds payable	\$ 4,875,000

NOTE 8 - SHORT-TERM DEBT

On June 6, 2018 the district issued a State Aid Anticipation Note in the amount of \$1,000,000 from Citizens National Bank of Cheboygan. The note matures on August 31, 2018 with interest at 2.88%. The purpose of the note was to provide for cash flow needs for the school year beginning July 1, 2018. During the year the district paid \$29,595 in interest expenditures related to its short-term debt. The balance at June 30, 2018 was \$1,000,000.

Short-term debt activity for the year ended June 30, 2018, was as follows:

	Balance				Balance
	July 1, 2017	Additions	Reductions		June 30, 2018
State Aid Note	\$ 1,200,000	\$ 1,000,000	\$ 1,200,000	\$	1,000,000

NOTE 9 - 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 participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintain reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited.

The School District continues to carry commercial insurance for other risks of loss, including employee health insurance. No settlements have occurred in excess of coverage for the year ended June 30, 2018 or any of the prior three years.

Cheboygan Area Schools

Notes to the Financial Statements

June 30, 2018

NOTE 10 - PENSION PLAN

General Information about the Michigan Public School Employees' Retirement System (MPSERS) pension plan

Plan Description

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

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

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

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

Benefits Provided

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

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

Contributions

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

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

Cheboygan Area Schools

Notes to the Financial Statements

June 30, 2018

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

Benefit Structure	Pension Contribution Rates		
	Member	Employer	
		Universities	Non-Universities
Basic	0.0 - 4.0 %	23.05 %	19.03 %
Member Investment Plan	3.0 - 7.0 %	23.05 %	19.03 %
Pension Plus	3.0 - 6.4 %	N/A	18.40 %
Defined Contribution	0.0 %	18.75 %	15.27 %

Required contributions to the pension plan from the district were \$2,349,483 for the year ended September 30, 2017.

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

At June 30, 2018, the district reported a liability of \$25,957,917 for its proportionate share of the MPERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. The district's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, the district's proportion was 0.10016850 percent, which was a decrease of 1.96526852 percent from its proportion measured as of September 30, 2016.

For the year ended June 30, 2018, the district recognized pension expense of \$986,262. At June 30, 2018, the 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	\$ 225,592	\$ 127,370
Changes of assumptions	2,843,896	-
Net difference between projected and actual earnings on pension plan investments	-	1,240,959
Changes in proportion and differences between district contributions and proportionate share of contributions	565	1,152,081
District contributions subsequent to the measurement date	1,277,360	1,027,482
Total	\$ 4,347,413	\$ 3,547,892

Cheboygan Area Schools

Notes to the Financial Statements

June 30, 2018

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflows) and Deferred Outflows of Resources by Year (To Be Recognized in Future Pension Expenses)	
Year Ending September 30	Amount
2018	\$ (3,520)
2019	485,319
2020	177,027
2021	(109,183)

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2016
Actuarial Cost Method	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid)	7.5%
- Pension Plus Plan (Hybrid)	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

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

Cheboygan Area Schools

Notes to the Financial Statements

June 30, 2018

Long-Term Expected Return on Plan Assets

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

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

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

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 13.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Cheboygan Area Schools

Notes to the Financial Statements

June 30, 2018

Sensitivity of the district's proportionate share of the net pension liability to changes in the discount rate

The following presents the district's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for the Hybrid Plan), as well as what the district's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease (Non-Hybrid/Hybrid)* 6.5% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 7.5% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 8.5% / 8.0%
\$ 33,814,531	\$ 25,957,917	\$ 19,343,147

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

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

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

Cheboygan Area Schools

Notes to the Financial Statements

June 30, 2018

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

General Information about the Michigan Public School Employees' Retirement System (MPSERS) OPEB plan

Plan Description

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

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

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

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

Benefits Provided

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

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

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

Contributions

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

Cheboygan Area Schools

Notes to the Financial Statements

June 30, 2018

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

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

Benefit Structure	OPEB Contribution Rates		
	Member	Universities	Employer Non-Universities
Premium Subsidy	3.00 %	7.36 %	5.91 %
Personal Healthcare Fund (PHF)	0.00 %	6.98 %	5.69 %

Required contributions to the OPEB plan from the district were \$780,146 for the year ended September 30, 2017.

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

At June 30, 2018, the district reported a liability of \$8,873,712 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The district's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the district's proportion was 0.00100206 percent, which was an increase of - percent from its proportion measured as of October 1, 2017.

For the year ended June 30, 2018, the district recognized OPEB expense of \$593,505. At June 30, 2018, the district reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 94,479
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	205,517
Changes in proportion and differences between district contributions and proportionate share of contributions	-	162
District contributions subsequent to the measurement date	12,024	-
Total	\$ 12,024	\$ 300,158

Cheboygan Area Schools

Notes to the Financial Statements

June 30, 2018

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Deferred (Inflows) and Deferred Outflows of Resources by Year (To Be Recognized in Future OPEB Expenses)	
Year Ending September 30	Amount
2018	\$ (72,531)
2019	(72,531)
2020	(72,531)
2021	(72,531)
2022	(10,034)

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2015
Actuarial Cost Method	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	7.5%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Healthcare Cost Trend Rate:	7.5% Year 1 graded to 3.5% Year 12
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.
Other Assumptions:	
Opt Out Assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
Survivor Coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
Coverage Election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Notes:

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

Cheboygan Area Schools

Notes to the Financial Statements

June 30, 2018

Long-Term Expected Return on Plan Assets

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

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

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

Rate of Return

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

Discount Rate

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

Cheboygan Area Schools

Notes to the Financial Statements

June 30, 2018

Sensitivity of the district's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the district's proportionate share of the net OPEB liability calculated using the discount rate of 7.5% (7.0% for the Hybrid Plan), as well as what the district's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
\$ 10,393,682	\$ 8,873,712	\$ 7,583,734

Sensitivity of the district's proportionate share of the net OPEB liability to Healthcare Cost Trend Rate

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

1% Decrease 6.5%	Current Healthcare Cost Trend Rate 7.5%	1% Increase 8.5%
\$ 7,514,842	\$ 8,873,712	\$ 10,416,616

OPEB Plan Fiduciary Net Position

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

Cheboygan Area Schools

Notes to Financial Statements

June 30, 2018

NOTE 12 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Postemployment Benefits

Under the MPSERS' Act, all retirees participating in the MPSERS' pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage. The MPSERS board of trustees annually sets the employer contribution rate to fund these benefits on a pay-as-you-go basis. Employer contributions ranged from 8.18 percent to 9.11 percent of covered compensation for the year ended June 30, 2018.

Defined Contribution Plan

The defined contribution plan has an employer match of 50% of the Employee contribution from 0% to 4% depending on the employee plan & choice and employer paid 2% on the employee's health care fund.

NOTE 13 - 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 defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned revenue are as follows:

	Unavailable	Unearned
General Fund	\$	\$ 208,978

NOTE 14 - PROPERTY TAX ABATEMENTS

Public Act 210 of 2005 provides for the establishment of commercial rehabilitation districts in certain local governmental units; to provide for the exemption from certain taxes; to levy and collect a specific tax upon the owners of certain qualified facilities; to provide for the disposition of the tax; to provide for the obtaining and transferring of an exemption certificate and to prescribe the contents of those certificates; to prescribe the powers and duties of certain local governmental officials; and to provide penalties.

During the year, one parcel in the district was in a commercial rehabilitation district. As a result, Sinking Fund and Debt Fund property tax revenue was decreased by an insignificant amount.

NOTE 15- RECENTLY ISSUED ACCOUNTING PRINCIPLES

In June, 2017, GASB issued Statement No. 87, *Leases*. Statement No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

REQUIRED SUPPLEMENTAL INFORMATION

Cheboygan Area Schools

General Fund

Budgetary Comparison Schedule

For the year ended June 30, 2018

	Budgeted Amounts			Variance with final budget
	Original	Final	Actual	
REVENUES				
Local sources	\$ 6,007,810	\$ 5,876,656	\$ 5,903,723	\$ 27,067
State sources	10,003,553	10,462,580	10,149,236	(313,344)
Federal sources	883,332	724,228	714,907	(9,321)
Incoming transfers and other transactions	464,000	769,579	715,987	(53,592)
Total revenues	17,358,695	17,833,043	17,483,853	(349,190)
EXPENDITURES				
Current:				
Instruction:				
Basic programs	7,741,270	8,026,748	8,059,846	(33,098)
Added needs	3,222,518	3,295,173	2,981,884	313,289
Support services:				
Pupil services	693,196	924,990	882,998	41,992
Instructional staff services	12,131	11,514	-	11,514
General administration	304,511	335,668	336,994	(1,326)
School administration	1,169,046	1,118,371	1,178,768	(60,397)
Business services	276,762	300,991	283,358	17,633
Other business services	-	16,628	16,628	-
Operations and maintenance	1,648,949	1,698,879	1,565,423	133,456
Pupil transportation	1,243,179	1,199,307	1,116,066	83,241
Central support services	204,235	222,384	200,441	21,943
Athletics	313,749	288,753	284,942	3,811
Community activities	-	4,000	1,361	2,639
Non-public schools	32,140	31,513	27,247	4,266
Facilities acquisition, construction and improvements	80,000	141,000	140,761	239
Interest	30,000	30,000	29,595	405
Prior period adjustments	-	5,000	17,610	(12,610)
Total expenditures	16,971,686	17,650,919	17,123,922	526,997
OTHER FINANCING SOURCES (USES)				
Sale of general capital assets	10,000	10,000	6,217	(3,783)
Operating transfers out	(11,224)	(56,214)	(40,000)	16,214
Total other financing sources (uses)	(1,224)	(46,214)	(33,783)	12,431
Net change in fund balances	385,785	135,910	326,148	190,238
Fund balances-beginning	692,990	692,990	692,990	-
Fund balances-ending	\$ 1,078,775	\$ 828,900	\$ 1,019,138	\$ 190,238

Cheboygan Area Schools

Required Supplemental Information

June 30, 2018

Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability

Michigan Public Schools Employees Retirement Plan

Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.10016850 %	0.10213708 %	0.10549811 %	0.10915000 %
Reporting unit's proportionate share of net pension liability	\$ 25,957,917	\$ 25,482,366	\$ 25,767,942	\$ 24,040,847
Reporting unit's covered employee payroll	\$ 8,354,246	\$ 8,530,875	\$ 8,798,773	\$ 9,347,748
Reporting unit's proportionate share of net pension liability as a percentage of its covered employee payroll (%)	310.72 %	298.71 %	292.86 %	257.18 %
Plan fiduciary net position as a percentage of total pension liability	- %	63.01 %	66.20 %	66.20 %

Schedule of the Reporting Unit's Contributions

Michigan Public Schools Employees Retirement Plan

Last 10 Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2017</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 2,349,483	\$ 2,108,841	\$ 2,445,157	\$ 2,025,328
Contributions in relation to statutorily required contributions	2,349,483	2,108,841	2,445,157	2,025,328
Contribution deficiency (excess)	-	-	-	-
Reporting units covered-employee payroll	\$ 8,354,246	\$ 8,530,875	\$ 8,798,773	\$ 9,347,748
Contributions as a percentage of covered-employee payroll	28.12 %	24.72 %	27.79 %	21.67 %

Notes to Required Supplementary Information

Changes of benefit terms: There were no changes of benefit terms during the plan year ending 2017.

Changes of assumptions: There were no changes of benefit assumptions during the plan year ending 2017.

Cheboygan Area Schools

Required Supplemental Information

June 30, 2018

Schedule of the District's Proportionate Share of the Net OPEB Liability

Michigan Public Schools Employees Retirement Plan

Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	<u>2017</u>
District's proportion of net OPEB liability (%)	0.10020599 %
District's proportionate share of net OPEB liability	\$ 8,873,712
District's covered payroll (OPEB)	\$ 8,354,246
District's proportionate share of net OPEB liability as a percentage of its covered employee payroll (%)	106.22 %
Plan fiduciary net position as a percentage of total OPEB liability	36.39 %

Schedule of the District's OPEB Contributions

Michigan Public Schools Employees Retirement Plan

Last 10 Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2018</u>
Statutorily required contributions	\$ 780,146
Contributions in relation to statutorily required contributions	780,146
Contribution deficiency (excess)	-
Reporting units covered-employee payroll	\$ 8,197,525
Contributions as a percentage of covered-employee payroll	9.52 %

Notes to Required Supplementary Information

Changes of benefit terms: There were no changes of benefit terms during the plan year ending 2017.

Changes of assumptions: There were no changes of benefit assumptions during the plan year ending 2017.

OTHER SUPPLEMENTAL INFORMATION

Cheboygan Area Schools

Nonmajor Governmental Funds

Combining Balance Sheet

June 30, 2018

	Food Service	Debt Service	Sinking	Capital Projects	Total
ASSETS					
Cash and investments	\$ 21,006	\$ 84,180	\$ 2,838	\$ 308,477	\$ 416,501
Accounts receivable, net	1,257	-	-	-	1,257
Intergovernmental receivable	15,410	-	-	-	15,410
Inventories	13,223	-	-	-	13,223
Total assets	\$ 50,896	\$ 84,180	\$ 2,838	\$ 308,477	\$ 446,391
LIABILITIES					
Due to other funds	\$ 28,343	\$ -	\$ -	\$ -	\$ 28,343
FUND BALANCES					
Nonspendable:					
Inventories	13,223	-	-	-	13,223
Restricted:					
Food service	9,330	-	-	-	9,330
Debt service	-	84,180	-	-	84,180
Capital projects			2,838	308,477	311,315
Total fund balances	22,553	84,180	2,838	308,477	418,048
Total liabilities and fund balances	\$ 50,896	\$ 84,180	\$ 2,838	\$ 308,477	\$ 446,391

Cheboygan Area Schools

Nonmajor Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the year ended June 30, 2018

	Food Service	Debt Service	Sinking	Capital Projects	Total
REVENUES					
Local sources	\$ 152,679	\$ 1,331,933	\$ 355,821	\$ 332	\$ 1,840,765
State sources	25,145	-	-	-	25,145
Federal sources	542,027	-	-	-	542,027
Total revenues	719,851	1,331,933	355,821	332	2,407,937
EXPENDITURES					
Current:					
Food service	697,175	-	-	-	697,175
Debt service:					
Principal	-	1,175,000	-	-	1,175,000
Interest	-	172,650	-	-	172,650
Fees	-	1,250	-	-	1,250
Capital outlay	-	-	466,112	269,222	735,334
Total expenditures	697,175	1,348,900	466,112	269,222	2,781,409
Excess (deficiency) of revenues over expenditures	22,676	(16,967)	(110,291)	(268,890)	(373,472)
OTHER FINANCING SOURCES (USES)					
Transfers in	40,000	-	-	-	40,000
Net change in fund balances	62,676	(16,967)	(110,291)	(268,890)	(333,472)
Fund balances-beginning	(40,123)	101,147	113,129	577,367	751,520
Fund balances-ending	\$ 22,553	\$ 84,180	\$ 2,838	\$ 308,477	\$ 418,048

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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

To the Board of Education
Cheboygan Area Schools

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cheboygan Area Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Cheboygan Area Schools' basic financial statements, and have issued our report thereon dated October 21, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs^d that we consider to be significant deficiencies.

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Douglas Wohlberg". The signature is written in a cursive, flowing style.

Douglas Wohlberg, CPA
Byron Center, Michigan
October 21, 2018

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

To the Board of Education
Cheboygan Area Schools

Report on Compliance for Each Major Federal Program

We have audited Cheboygan 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 Cheboygan Area Schools' major federal programs for the year ended June 30, 2017. Cheboygan 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 other 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 Cheboygan 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 auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* 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 Cheboygan 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 Cheboygan Area Schools' compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Cheboygan 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 Cheboygan 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 Cheboygan 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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



Douglas Wohlberg, CPA
Byron Center, Michigan
October 21, 2018

Cheboygan Area 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	Inventory/ Accrued (Unearned) Revenue July 1, 2017	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Inventory/ Accrued (Unearned) Revenue June 30, 2018	Adjustments
U.S. Department of Education								
Direct Program								
IASA Title VI Indian Education								
S060A172286	84.060A	\$ 32,023	\$ -	\$ 36,568	\$ 32,023	\$ 32,023	\$ -	\$ -
Passed Through Michigan Department of Education (MDE)								
Title I - Part A								
Improving Basic Programs	1815301718	84.010	656,320	-	-	524,034	407,787	116,247
Improving Basic Programs	1715301617	84.010	671,249	72,186	563,532	-	72,186	-
Totals			1,327,569	72,186	563,532	524,034	479,973	116,247
Title II - Part A								
Supporting Effective Instruction	1805201718	84.367A	99,116	-	-	89,205	82,876	6,329
Teacher/Principal Training & Recruiting	1705201617	84.367A	138,181	14,090	131,666	-	14,090	-
Totals			237,297	14,090	131,666	89,205	96,966	6,329
Passed Through Alpena Public School District								
Career and Technical Education - Basic Grants to States								
2017/2018	84.048	67,211	-	-	67,211	67,211	-	-
2016/2017	84.048	75,630	-	75,630	-	-	-	-
Totals		142,841	-	75,630	67,211	67,211	-	-
Passed Through COPESD								
Medicaid Outreach Claims								
2017/2018	93.778	2,434	-	-	2,434	2,434	-	-
2016/2017	93.778	4,782	-	4,782	-	-	-	-
Totals		7,216	-	4,782	2,434	2,434	-	-
Total U.S. Department of Education		1,746,946	86,276	812,178	714,907	678,607	122,576	12,617

The accompanying notes are an integral part of this schedule.

Cheboygan Area 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	Inventory/ Accrued (Unearned) Revenue July 1, 2017	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Inventory/ Accrued (Unearned) Revenue June 30, 2018	Adjustments
US Department of Agriculture								
Passed Through MDE								
Child Nutrition Cluster								
Non-Cash Assistance (Commodities):								
National School Lunch Program								
Entitlement Commodities	10.555	38,116	-	49,775	38,116	38,116	-	-
Cash Assistance:								
National School Lunch - Breakfast								
171970, 181970	10.553	143,467	28,949	140,243	143,467	167,574	4,842	-
National School Lunch								
Section 4 - Total Servings - 171960, 181960	10.555	380,423	60,470	351,245	327,198	380,422	7,246	-
Summer Food Service Program for Children								
170900, 171900	10.559	10,920	-	9,720	10,920	10,920	-	-
Child and Adult Care Food Program								
181920, 182010	10.558	22,326	-	-	22,326	22,326	-	-
Total Cash Assistance		557,136	89,419	501,208	503,911	581,242	12,088	-
Total Child Nutrition Cluster		595,252	89,419	550,983	542,027	619,358	12,088	-
Total U.S. Department of Agriculture		595,252	89,419	550,983	542,027	619,358	12,088	-
Total Federal Financial Assistance		\$ 2,342,198.00	\$ 175,695.00	\$ 1,363,161.00	\$ 1,256,934.00	\$ 1,297,965.00	\$ 134,664.00	\$ 12,617.00

The accompanying notes are an integral part of this schedule.

Cheboygan Area Schools

Schedule of Reconciliation of Expenditures to Financial Statement Revenues

For the year ended June 30, 2018

Expenditures listed on the Schedule of Expenditures of Federal Awards	\$ 1,256,934
Revenues as listed on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances	\$ 1,256,934

Cheboygan Area Schools

Notes to Schedule of Expenditures of Federal Awards

For the year ended June 30, 2018

1. The Schedule of Expenditures of Federal Awards utilizes the modified accrual basis of accounting. This is the same basis of accounting as utilized by the governmental financial statements. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance.
2. Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the annual or final cost reports.
3. Management has utilized the Grant Auditor Report (CMS) in preparing the Schedule of Expenditures of Federal Awards.
4. Inventory values are based on the USDA value of donated food commodities (per the Food Scoop). Reported commodity receipts values were computed using the Recipient Entitlement Balance Report and other district records. Spoilage or pilferage, if any, is included in expenditures.
5. Included in the Food Distribution Program is \$38,116 of non-cash assistance.
6. The district has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Cheboygan Area Schools

Summary Schedule of Prior Audit Findings and Questioned Costs

June 30, 2018

Financial Statement Findings

None

Federal Award Findings

None

Cheboygan 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

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 for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 501(a) of OMB Circular A-133? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Part A, Improving Basic Programs Operated by Local Educational Agencies

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

Auditee qualified as low-risk auditee? Yes No

Cheboygan Area Schools

Schedule of Findings and Questioned Costs

For the year ended June 30, 2018

Section II Financial Statement Findings

None.

Section III - Federal Award Current Year Findings and Questioned Costs

None.

Section IV - Federal Award Prior Year Findings and Questioned Costs

2017-002 Reconciliation of Cash Receipts

Type: Significant Deficiency

Criteria: Food service fund revenues have not been accurately recorded in the building accounts until the end of each fiscal year.

Statement of Conditions: Personnel in the district's business office have not been reconciling daily food service receipts at the buildings to daily deposits on the bank statements.

Effect: The business office is not able to accurately report the distribution of revenues to revenue accounts and buildings.

Cause: The food service management company has not been providing reports of receipts and deposits to the business office

Auditor Recommendation: It is the auditor's recommendation that the District obtain reports on the 15th of each month and the last day of each month from the food service management company beginning of the 2017-2018 school year

District Response: The food service management company will be providing report to the business office on the 15th of each month and the last day of each month to the business office with the beginning of the 2017-2018 school year. Personnel in the business office will reconcile the reports and produce the accurate misdistributions of revenue.

Auditor follow-up: The district has corrected this deficiency.

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October 21, 2018

To the Board of Education
Cheboygan Area Schools

We have audited the financial statements of the governmental activities and the major fund and the nonmajor fund information of Cheboygan Area Schools for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under 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 July 16, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Cheboygan Area Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit 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 estimates affecting the district's financial statements were:

Estimates have been used to calculate the net pension and net OPEB liabilities. We evaluated the key factors and assumptions used to develop the net pension and net OPEB liabilities in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimates of the useful lives of capital assets which is based on previous history, management's estimate of the accrued compensated absences is based on current contracts, rates and policies regarding payment of these benefits, and the net pension liability which is based on an actuarial valuation of the entire Michigan Public School Employees Retirement System. We evaluated key factors and assumptions used to develop the estimates in determining that they are 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 October 21, 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 the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

During the course of our audit of the basic financial statements of Cheboygan Area Schools for the year ended June 30, 2018, we noted the following items which we feel deserve comment:

Budgeting - During the course of our audit, we noted the District's expenditures exceeded appropriations in various functions within the General Fund. We recommend the Board amend its budget as soon as it becomes evident that expenditures will exceed appropriations to ensure compliance with State of Michigan Law.

Other Matters

We applied certain limited procedures to management's discussion and analysis, the budgetary comparison information, the schedule of proportionate share, the schedule of contributions, and the notes to 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 not engaged to report on the combining fund financial statements and schedule of expenditures of federal awards, 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 accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restrictions on Use

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

Very truly yours,



Douglas Wohlberg, CPA
Byron Center, Michigan