Clio Area Schools

Financial Statements

June 30, 2018

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Clio Area Schools
Members of the Board of Education and Administration
June 30, 2018

Administration

Fletcher Spears III	Superintendent
Stephen Keskes, Ed. S.	Asst. Superintendent for Curriculum and Instruction
Rebekah Silkworth	Asst. Superintendent for Finance

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Independent Auditors' Report

To the Board of Education
Clio Area Schools
Clio, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2018, the School District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinions are not modified with respect to this matter.

Other Matters:

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clio Area Schools' basic financial statements. Other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 other supplementary information, as identified in the table of contents, is 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 September 11, 2018, on our consideration of Clio 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Clio Area Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Flint, Michigan
September 11, 2018

MANAGEMENT’S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis
For the Year Ended June 30, 2018

The Clio Area School District has chosen to implement the provisions of Governmental Accounting Standards Board *Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,*(GASB 34) with the enclosed financial statements. Our discussion and analysis of Clio Area Schools' financial performance, a GASB 34 requirement, provides an overview of the School District's financial activities for the fiscal year ended June 30, 2018.

GASB 34 and generally accepted accounting principles (GAAP) require the reporting of two types of financial statements: fund financial statements and district-wide financial statements.

Fund Financial Statements

The fund financial statements provide more detailed information about the School District's funds, focusing on its most significant or "major" funds – not the School District as a whole. The fund-level financial statements are reported on a modified accrual basis. That is, only those assets that are "measurable" and "currently available" are reported, and liabilities are recognized to the extent that they are normally expected to be paid with current financial resources. The School District has two kinds of funds:

- *Governmental Funds:* All of the School District's basic services are provided in governmental funds, which generally focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund financial statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, reconciliations from the fund level statements to the district-wide statements explain the relationship (or differences) between them. The School District's governmental funds include the General Fund, Cafeteria Special Revenue Fund, and Capital Projects Fund.

- *Agency Funds:* The School District is the custodian for assets that belong to others in the student activities agency fund. The School District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The School District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

District-wide Financial Statements

The District-wide Statement of Net Position and Statement of Activities are reported using the full accrual basis of accounting. With this method, all of the School District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and current year revenues and expenditures are reported, regardless of when cash is received or paid. These statements provide information about the activities of the School District as a whole, and present a long-term view of the School District's finances. For example, the Statement of Activities details how the School District's services were financed in the short-term and the amount that remains for future spending. The Statement of Net Position aggregates the School District's restricted and unrestricted assets as well as short and long-term obligations recorded in all funds.

Financial Position and Results of Operations

The School District's net position – the difference between assets plus deferred inflows and liabilities plus deferred outflows, as reported in the Statement of Net Position, is one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net position, as reported in the Statement of Activities, is one indicator of whether its financial health is improving or deteriorating, respectively. The relationship between revenues and expenses indicates the School District's operating results. To assess the School District's overall health, it is important to consider additional non-financial factors such as the quality of educational services provided, the condition of school buildings and facilities, the safety of the schools, and other non-financial factors.

Summary of Net Position

The School District's net position totaled $ (39,299,263) at June 30, 2018. Of this amount, $ (50,687,639) was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and legislation that limits the School District's ability to use this net position for day-to-day operations.

The following is a summary of the School District's net position at June 30, 2018:

	June 30, 2018
Assets	
Current assets	$ 9,770,568
Capital assets, net of depreciation	11,112,759
Total assets	20,883,327
Deferred outflows of resources	
Deferred amount of pension expense related to net pension and OPEB liabilities	10,165,038
Total deferred outflows of resources	10,165,038
Total assets and deferred outflows of resources	**$ 31,048,365**
Liabilities	
Current liabilities	$ 5,686,635
Long-term liabilities	58,555,979
Total liabilities	64,242,614
Deferred inflows of resources	
Deferred amount on net pension and OPEB liabilities	6,105,014
Total liabilities and deferred inflows of resources	70,347,628
Net Position	
Net investment in capital assets	10,825,201
Restricted for food service	563,175
Unrestricted	(50,687,639)
Total net position	(39,299,263)
Total liabilities and net position	**$ 31,048,365**

Analysis of Financial Position

During fiscal year ended June 30, 2018, the School District's net position increased by $ 283,493. Increase in net position for the year was primarily attributable to net change in the district's share of State of Michigan unfunded pension and OPEB liabilities. A few of the significant factors affecting net position during the year are discussed below:

A. Governmental Fund Operations
In the School District's governmental funds, revenues exceeded expenditures by $ 541,885 for the fiscal year ended June 30, 2018. See the section entitled Major Governmental Funds Budgeting and Operating Highlights below for further discussion of governmental fund operations.

B. Depreciation Expense
The provisions of GASB 34 require the School District to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation is a reduction in net position. Depreciation expense is recorded using a straight-line method over the estimated useful lives of the assets. In accordance with generally accepted accounting principles, depreciation expense is recorded based on the original cost of the asset less an estimated salvage value. For the year ended June 30, 2018, the depreciation expense was $ 1,066,734.

C. Capital Acquisitions
Additions to capital outlay for the year ended June 30, 2018, totaled $ 763,969. Capital outlay was offset by current year depreciation expense of $ 1,066,734, creating a net position increase from capital outlays of $ 302,765.

D. Other Changes
Net change between current year and prior year deferred outflow of resources related to the net pension liability and OPEB liability totaling $ 43,086 are shown on the district-wide statements that were not expended on the fund statements as they were not due and payable in the current period.

Results of Operations

The results of this year's operations for the School District as a whole are reported in the Statement of Activities. A summary of the district-wide results of operations for the year ended June 30, 2018 is a follows:

Revenue	
General revenue:	
Property taxes, levied for general purposes	$ 2,427,967
Property taxes, levied for capital projects	962,513
State of Michigan aid, unrestricted	20,783,500
Interest and investment earnings	0
Gain on Sale of Capital Assets	2,274
Other general revenue	323,182
Total general revenue	24,499,436
Program revenue:	
Charges for services	947,892
Operating grants and contributions	7,039,996
Total revenue	**32,487,324**
Expenses	
Instruction	19,143,021
Supporting services	11,305,610
Food services	1,185,177
Community service	560,990
Interest and fiscal charges on long-term debt	9,033
Total expenses	**32,203,831**
Change in net position	**283,493**
Net position – July 1, 2017 (restated)	**(39,582,756)**
Net position – June 30, 2018	**$ (39,299,263)**

Governmental Funds Financial Highlights

The General Fund is reported separately as a major fund in the fund financial statements. Funds reported as "Nonmajor Governmental Funds" in the fund financial statements include the Cafeteria Fund, Transportation Fund, and Capital Project Fund. The annual fund financial statements provide the following insights about the results of this year's operations:

A. General Fund

The General Fund experienced an increase in fund equity of $ 253,853, or just under 1% of expenditures, during the year ended June 30, 2018. Ending fund equity in the General Fund was $ 3,477,030 on June 30, 2018, which equates to 11.7% of expenditures for the year. This level was up from $ 3,223,177 on June 30, 2017.

B. Nonmajor Governmental Funds

Nonmajor governmental funds experienced an increase in fund equity of $ 288,032 during the year. The Cafeteria Special Revenue Fund balance increased from the prior year. Revenues exceeded expenditures by $ 134,207, resulting in ending fund equity of $563,175 or 49.22% of expenditures for the year. Capital Projects funds experienced an increase in fund equity of $ 153,825, resulting in ending fund equity of $ 43,728.

Major Governmental Funds Budgeting and Operating Highlights

The School District's budgets are prepared according to Michigan law and are initially adopted prior to July 1 of each year, based on facts and assumptions known at the time of the initial budget preparation. It is expected that there will be changes between the initial budget and subsequent budgets, as many factors are not known at the time of adoption of the initial budget. Some of these factors include enrollment figures and resultant staffing requirements, staffing changes that take place during the year, state school aid adjustments, grant allocations, and other unforeseen items. As a matter of practice, the School District amends its budget two times during the fiscal year to adjust for these changes. The School District prepares budgets for the General Fund, Cafeteria Special Revenue Fund, Transportation Fund, and Capital Projects Fund.

A. General Fund

In the General Fund, actual revenue was $ 29.8 million. This is above the original budget estimate of $ 29.55 million and above the final budgeted amount of $ 29.75 million, a variance of $ 43,420 or .15%. The actual expenditures of the General Fund were $ 29.63 million. This is above the original budget estimate of $ 29.46 million and below the final budgeted amount of $ 29.68 million, a variance of $ 51,373, or 0.17%.

The variances between the actual revenues and the original and final amended budgets in the General Fund are due primarily to the following:

- Increased revenue from fees and services.
- Increase in expected revenue from local property taxes.
- Increase in revenue from state sources.
- Decrease in revenue from inter district sources.

The variances between the actual General Fund expenditures and the original and final expenditure budgets include the following:

- Employee salary and benefit adjustments due to varied retirement rates and personnel changes.
- Adjustments for federal and state grant expenditures.
- Decreased expenditures in teaching supplies, transportation diesel fuel and supplies.

The General fund revenues and other financing sources exceeded expenditures by $ 253,850 for the year ended June 30, 2018, which resulted in a .6% increase in fund equity. The ending fund equity in the General Fund was $ 3,477,030 at June 30, 2018, which equates to 11.7% of expenditures for the year. This level was up from $ 3,223,177 June 30, 2017.

B. Capital Projects Funds

The Capital Projects Funds receive revenues from property taxes and investment income. Expenditures take the form of capital improvement projects for major repairs and improvements to the School District's facilities. The School District's Capital Projects Funds is comprised of the Sinking Fund that was passed in 2001 and reauthorized May 4, 2010.

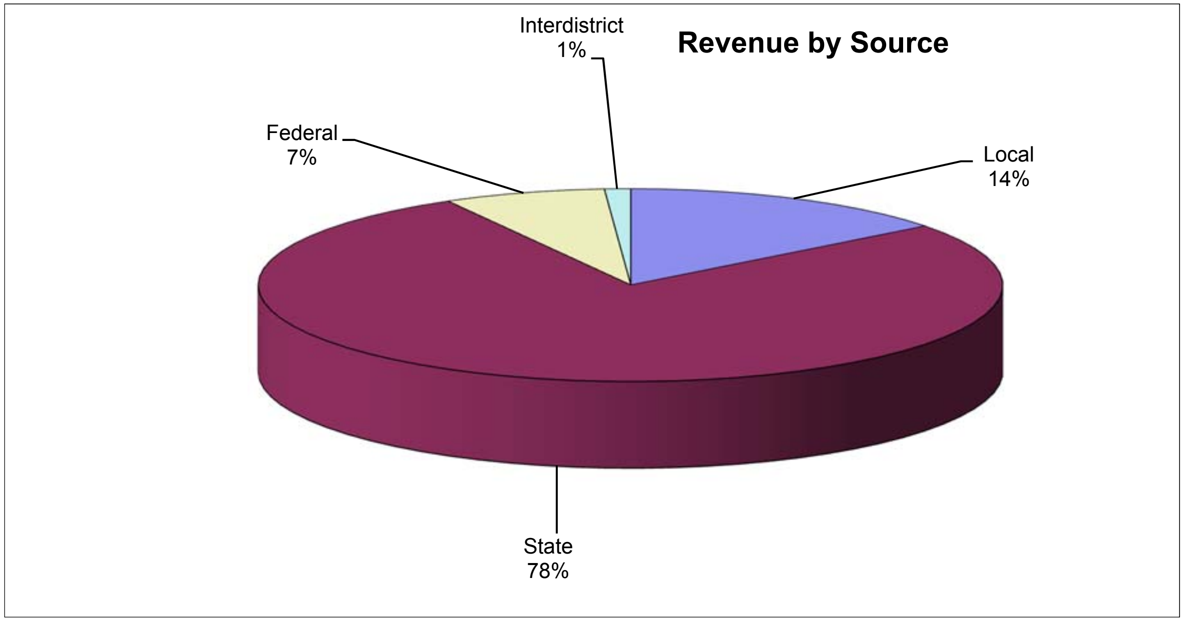
During the year, the Capital Projects funds realized $ 962,513 in revenues and $ 808,688 in expenditures, resulting in a net increase in fund equity of $ 153,825, resulting in an ending fund equity of $ 43,728 at June 30, 2018.

C. Transportation Services Fund

A new fund was created in fiscal year 2016/2017 to separate from general fund financial statements the revenues and costs generated from the district assisting other school districts and municipalities with their school bus fleet maintenance and repairs. This fund reported revenues of $ 422,629 generated from fees and expenditures of $ 366,145, allowing $ 56,484 to be transferred to the general fund.

Governmental Fund Revenues

Revenues for all governmental funds totaled $ 32.5 million for 2017/2018. The following graph illustrates the School District's revenues by source as a percentage of total revenue:



A. Unrestricted State Aid

The School District is predominantly funded by State Aid. Unrestricted state aid is determined by the following three variables: (1) State of Michigan student foundation allowance; (2) student enrollment for the year, blended at 90 percent of the current year's fall student count and 10 percent of the previous school year's winter student count; and (3) the School District's non-homestead property tax levy.

Annually, the State of Michigan establishes the per student foundation allowance. For the year ended June 30, 2018, the foundation allowance for Clio Area Schools was established at $ 7,631, an increase of $ 120 per student from the 2016/2017 foundation allowance.

Student enrollment for state aid for the 2017/2018 year was 3,095.75, a decrease of 23.25 full time equated students from 2016/2017.

The following schedule summarizes the School District's blended student enrollment in full-time equivalencies and per student Foundation Allowance for the current year and the previous nine years:

Year	Student Enrollment	Change from Prior Year	Foundation Allowance	Change from Prior Year
2017/2018	3,096	(23)	$7,631	$ 120
2016/2017	3,119	(50)	7,511	120
2015/2016	3,169	(27)	7,391	265
2014/2015	3,196	(90)	7,126	100
2013/2014	3,286	(206)	7,026	60
2012/2013	3,492	(153)	6,966	120
2011/2012	3,645	(18)	6,846	(470)
2010/2011	3,663	216***	7,316**	-0-
2009/2010	3,447	8	7,316*	-0-
2008/2009	3,439	(60)	7,316	112
2007/2008	3,499	(83)	7,204	119
2006/2007	3,582	46	7,085	210
2005/2006	3,536	(27)	6,875	175
2004/2005	3,563	(27)	6,700	-0-
2003/2004	3,590	21	6,700	-0-

*The district realized a $ 154 proration in 2009/2010
**The district realized a $ 170 proration in 2010/2011
***The district started a Global Academy in the spring of 2010 that significantly increased student enrollment and provided an alternative educational experience for secondary students.
****The district started a home school partnership program in 2017-2018. This unique educational entity provides opportunities for students both through the partnership and the rest of the district to take virtual classes that are not offered through traditional vendors.

B. Property Taxes

The School District is authorized to levy up to 18 mils of property taxes on all non-primary residence property located within the School District for General Fund operations. Commercial personal property is levied at 6 mils. The levy is assessed on the Taxable Value of the property. The increase in taxable value is limited to the lesser of the inflation rate or 5%. When a property is sold, the Taxable

Valuation of the sold property is readjusted to the State Equalized Value, which is approximately 50% of market value. The School District levied 18.0000 mills for operations during the 2017/2018 and property tax revenue was $ 2.42 million.

The School District's sinking funds are used for the repairs and replacement of buildings and sites. In 2010, the School District's voters reauthorized a 2.0 mill ten-year levy. The School District levied 1.9992 mills for the sinking fund during the 2017/2018 year and property tax revenue was $ .96 million.

Governmental Fund Expenditures

The following chart illustrates that the General Fund comprises 91.7% of all expenditures within the governmental funds of the School District. As of June 30, 2018, expenditures and other financing uses totaled $ 31.9 million for all School District programs. The ending fund equity for all funds was $ 4.08 million.

	Expenditures & Other Uses (In millions)	Percent of Total
General Fund	$ 29.62	91.7%
Other Governmental Funds	2.32	8.3%
Total	$ 31.94	100.0%

Capital Asset and Debt Administration

A. Capital Assets

At June 30, 2018, the School District had $ 29.02 million invested in land and buildings, furniture and equipment, buses and other vehicles, and construction in progress. Of this amount, $ 17.9 million has been depreciated, which resulted in a net book value of $ 11.10 million. The majority of the buildings were constructed in the 1950's and 1960's. The School District is committed to timely repairs and maintenance of its facilities. Computer purchases fall below the School District's capitalization threshold of $ 5,000 and are expensed accordingly.

Capital Assets at June 30, 2018

	Amount (In millions)
Land, buildings and additions	$ 24.3
Equipment and furniture	2.45
Buses and other vehicles	2.26
Total	$ 29.01
Less accumulated depreciation	(17.91)
Net capital assets	$ 11.1

B. Long-Term Debt

At June 30, 2018, the School District had no outstanding bonded debt.

For more detailed information regarding capital assets and debt administration, please review the Notes to Financial Statements located in the financial section of this report.

Conditions that will Significantly Affect Financial Position and Results of Operations in Future Years

On May 4, 2010, the voters of the School District reauthorized a 2.0 mills sinking fund millage for a period of ten years. The total revenue to be generated will be approximately $ 9.2 million dollars, down from an initial projection of $ 10.2 million dollars. The reduction in anticipated revenue is a result of the loss of tax base due to depressed property values. The funds generated from this levy are necessary to keep facilities in good repair and to enable the district to use more general fund monies for operations. The district also passed a restoration of the 19.5067 non-homestead millage rate on November 5, 2013 which permits the district to levy the full allowable millage of 18 mills along with providing protection from future Headlee millage rate reductions. The State of Michigan continues to experience reduced birth rates, which has had a negative impact on student enrollment in Genesee County. Increases in retirement rates, moderate increases in per pupil funding, and increases in health care will also have an impact on the district's financial stability.

Adoption of New Accounting Standards

The District adopted GASB Statement No. 75, which requires placing the District's proportionate share of the state's school retirement plan's net OPEB liability on the statement of net position. This resulted in a restatement to reduce beginning net position by approximately $ 14.25 million.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the School District's finances. If you have questions about this report or need additional information, contact the business department at Clio Area Schools, 430 N. Mill Street, Clio, Michigan, 48420 or by telephone at 810-591-0500.

BASIC FINANCIAL STATEMENTS

Clio Area Schools
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets	
Cash	$ 4,743,909
Accounts receivable	448,225
Due from other governmental units	4,512,222
Inventory	29,499
Prepaid items	36,713
Capital assets not being depreciated	90,000
Capital assets - net of accumulated depreciation	11,022,759
Total assets	20,883,327
Deferred outflows of resources	
Deferred amount relating to the net pension liability	9,269,294
Deferred amount relating to the net OPEB liability	895,744
Total deferred outflows of resources	10,165,038
Total assets and deferred outflows of resources	31,048,365

See Accompanying Notes to the Financial Statements

Clio Area Schools
Statement of Net Position
June 30, 2018

	Governmental Activities
Liabilities	
Accounts payable	$ 554,747
State aid anticipation note payable	2,600,000
Due to other governmental units	434,104
Accrued salaries payable	2,071,202
Unearned revenue	26,582
Long-term liabilities	
Net pension liability	43,339,165
Net OPEB liability	14,796,344
Debt due within one year	225,566
Debt due in more than one year	194,904
Total liabilities	64,242,614
Deferred inflows of resources	
Deferred amount relating to the net pension liability	5,604,789
Deferred amount relating to the net OPEB liability	500,225
Total deferred inflows of resources	6,105,014
Net Position	
Net investment in capital assets	10,825,201
Restricted for	
Food service	563,175
Unrestricted (deficit)	(50,687,639)
Total net position	$ (39,299,263)

See Accompanying Notes to the Financial Statements

Clio Area Schools
Statement of Activities
For the Year Ended June 30, 2018

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs				
Governmental activities				
Instruction	$ 19,143,021	$ -	$ 5,616,195	$ (13,526,826)
Supporting services	11,305,610	548,817	415,968	(10,340,825)
Food services	1,185,177	308,468	991,940	115,231
Community services	560,990	90,607	15,893	(454,490)
Interest and fiscal charges on long-term debt	9,033	-	-	(9,033)
Total governmental activities	$ 32,203,831	$ 947,892	$ 7,039,996	(24,215,943)
General revenues				
Property taxes, levied for general purposes				2,427,967
Property taxes, levied for sinking fund				962,513
State aid - unrestricted				20,783,500
Gain on sale of capital assets				2,274
Other				323,182
Total general revenues				24,499,436
Change in net position				283,493
Net position - beginning, as restated				(39,582,756)
Net position - ending				$ (39,299,263)

See Accompanying Notes to the Financial Statements

Clio Area Schools
Governmental Funds
Balance Sheet
June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash	$ 4,078,864	$ 665,045	$ 4,743,909
Accounts receivable	419,184	29,041	448,225
Due from other funds	50,881	4,626	55,507
Due from other governmental units	4,507,894	4,328	4,512,222
Inventory	16,035	13,464	29,499
Prepaid items	36,713	-	36,713
Total assets	$ 9,109,571	$ 716,504	$ 9,826,075

See Accompanying Notes to the Financial Statements

Clio Area Schools
Governmental Funds
Balance Sheet
June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Liabilities			
Liabilities			
Accounts payable	$ 509,277	$ 45,470	$ 554,747
State aid anticipation note payable	2,600,000	-	2,600,000
Due to other funds	4,626	50,881	55,507
Due to other governmental units	434,104	-	434,104
Accrued salaries payable	2,071,202	-	2,071,202
Unearned revenue	13,332	13,250	26,582
Total liabilities	5,632,541	109,601	5,742,142
Fund Balance			
Non-spendable			
Inventory	16,035	13,464	29,499
Prepaid items	36,713	-	36,713
Restricted for food service	-	549,711	549,711
Restricted for capital projects	-	43,728	43,728
Unassigned	3,424,282	-	3,424,282
Total fund balance	3,477,030	606,903	4,083,933
Total liabilities and fund balance	$ 9,109,571	$ 716,504	$ 9,826,075

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

Total fund balances for governmental funds	$ 4,083,933
Total net position for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	90,000
Capital assets - net of accumulated depreciation	11,022,759
Deferred outflows (inflows) of resources	
Deferred inflows of resources resulting from the net pension liability	(5,604,789)
Deferred outflows of resources resulting from the net pension liability	9,269,294
Deferred inflows of resources resulting from the net OPEB liability	(500,225)
Deferred outflows of resources resulting from the OPEB liability	895,744
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Net pension liability	(43,339,165)
Net OPEB liability	(14,796,344)
Compensated absences	(132,912)
Other loans payable and liabilities	(287,558)
Net position of governmental activities	$ (39,299,263)

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

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Local sources	$ 2,915,130	$ 1,693,610	$ 4,608,740
State sources	25,205,738	23,792	25,229,530
Federal sources	1,360,169	968,148	2,328,317
Interdistrict sources	318,463	-	318,463
Total revenues	29,799,500	2,685,550	32,485,050
Expenditures			
Current			
Education			
Instruction	18,452,207	-	18,452,207
Supporting services	10,531,886	366,145	10,898,031
Food services	-	1,144,201	1,144,201
Community services	541,595	-	541,595
Facilities acquisition	-	808,688	808,688
Debt service			
Principal	91,684	-	91,684
Interest and other expenditures	9,033	-	9,033
Total expenditures	29,626,405	2,319,034	31,945,439
Excess of revenues over expenditures	173,095	366,516	539,611

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

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)			
Proceeds from sale of capital assets	2,274	-	2,274
Transfers in	78,484	-	78,484
Transfers out	-	(78,484)	(78,484)
Total other financing sources (uses)	80,758	(78,484)	2,274
Net change in fund balance	253,853	288,032	541,885
Fund balance - beginning	3,223,177	318,871	3,542,048
Fund balance - ending	$ 3,477,030	$ 606,903	$ 4,083,933

Clio 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

Net change in fund balances - total governmental funds	$	541,885
Total change in net position reported for governmental activities in the statement of activities is different because		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Depreciation expense		(1,066,734)
Capital outlay		763,969
Expenses are recorded when incurred in the statement of activities.		
Compensated absences		(4,225)
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions		
Net change in net pension liability		(756,211)
Net change in the deferrals of resources related to the net pension liability		871,527
The statement of net position reports the net OPEB liability and deferred outflows of resources and deferred inflows related to the net OPEB liability and OPEB expense. However, the amount recorded on the governmental funds equals actual OPEB contributions		
Net change in net OPEB liability		148,273
Net change in the deferrals of resources related to the net OPEB liability		(306,675)
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as financing sources or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.		
Repayments of long-term debt		91,684
Change in net position of governmental activities	$	283,493

See Accompanying Notes to the Financial Statements

Clio Area Schools
Fiduciary Funds
Statement of Assets and Liabilities
June 30, 2018

	Agency Fund
Assets	
Cash	$ 319,527
Accounts receivable	3,056
Total assets	$ 322,583
Liabilities	
Accounts payable	$ 2,133
Due to student activities	320,450
Total liabilities	$ 322,583

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Clio Area Schools (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity

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

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District allocates indirect costs, including depreciation expense, the change in compensated absences payable, and expenses associated with changes in the net pension liability for presentation the statement of activities. In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net position resulting from current year activities.

Fund Financial Statements

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.

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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

The School District reports the following major governmental funds:

> *General Fund* – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Additionally, the School District reports the following fund types:

> *Special Revenue Funds* – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Fund includes the Food Service Fund and Transportation Fund. Operating deficits generated by these activities are generally covered by a transfer from the General Fund.

> *Sinking Fund* – The Sinking Fund is used to record the sinking fund property tax levy and other revenue and the disbursement of invoices specifically for acquiring new school sites, construction, additions or major replacements to school buildings.

> *Fiduciary Funds* – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities, and Equity
Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2018, the rates are as follows per $ 1,000 of assessed value.

General Fund	
Non-principal residence exemption	18.00000
Commercial personal property	6.00000
Sinking Fund	1.99920

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. Approximately 99% of the School District's tax roll lies within Genesee County.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the Counties of Genesee and Saginaw and remitted to the School District by June 30.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of $ 5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	5-50 years
Equipment and furniture	3-20 years
Buses and other vehicles	5-10 years

Deferred Outflows of Resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans. The School District also reported deferred outflows of resources for pension and OPEB contributions made after the measurement date. This amount will reduce the net pension and OPEB liabilities in the following year.

Compensated Absences – Sick days are earned by employees at varying rates, which may accumulate from year to year, and are as follows:

> Teachers and Bus Drivers, 10 days per year; Administrators, Secretaries, and Custodians, 12 days per year.

There are some variations from group to group; normally employees who work only when school is in session receive 10 days per year and employees who work the entire year receive 12 days per year.

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.

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.

Deferred Inflows of Resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to MPSERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Education. The Board of Education has the authority to assign funds. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the School District's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows at the date of the financial statements and the report amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Eliminations and Reclassifications
In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards
Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

Statement No. 85, *Omnibus 2017* addresses practice issues that were identified during implementation and application of certain GASB Statements. This statement covers issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which is effective for the fiscal year ending June 30, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The statement provides uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irremovable trust for the purpose of extinguishing that debt were acquired. Statement No. 86 is effective for the fiscal year ending June 30, 2018.

Upcoming Accounting and Reporting Changes
Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 87, *Leases* increases the usefulness of the District’s financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the District's leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the District's financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities districts should include when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

The School District is evaluating the impact the above pronouncements will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts within functions in any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year.

Excess of Expenditures over Appropriations

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Basic programs	$ 14,553,984	$ 14,651,348	$ 97,364
Added needs	3,713,736	3,800,859	87,123
Pupil	1,395,315	1,403,939	8,624
School administration	1,968,800	2,015,579	46,779
Business	508,500	539,284	30,784
Athletics	542,700	553,224	10,524

Compliance – Sinking Funds

The Sinking Fund records capital project activities funded with the Sinking Fund millage. For these activities, the School District has complied, in all material respects, with the applicable provisions of § 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 2004-4.

Note 3 - Deposits and Investments

The School District's deposits were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and deposits	$ 4,743,909	$ 319,527	$ 5,063,436

Interest rate risk – The School District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – 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.

Concentration of credit risk – The School District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year end, $ 5,364,653 of the School District's bank balance of $ 5,614,653 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 90,000	$ -	$ -	$ 90,000
Construction-in-progress	496,723	-	496,723	-
Total capital assets not being depreciated	586,723	-	496,723	90,000
Capital assets being depreciated				
Buildings and additions	23,200,939	1,018,426	-	24,219,365
Equipment and furniture	2,380,325	71,286	-	2,451,611
Buses and other vehicles	2,140,803	170,980	54,000	2,257,783
Total capital assets being depreciated	27,722,067	1,260,692	54,000	28,928,759
Less accumulated depreciation for				
Buildings and additions	13,540,530	870,078	-	14,410,608
Equipment and furniture	1,699,117	92,446	-	1,791,563
Buses and other vehicles	1,653,619	104,210	54,000	1,703,829
Total accumulated depreciation	16,893,266	1,066,734	54,000	17,906,000
Net capital assets being depreciated	10,828,801	193,958	-	11,022,759
Net capital assets	$ 11,415,524	$ 193,958	$ 496,723	$ 11,112,759

Depreciation for the fiscal year ended June 30, 2018 amounted to $ 1,066,734. The School District allocated depreciation to the various governmental activities as follows:

Instruction	$ 634,218
Support services	374,574
Food services	39,327
Community services	18,615
Total governmental activities	$ 1,066,734

Note 5 - Interfund Receivables, Payables, and Transfers

Individual interfund receivable and payable balances at year end were:

Due From Fund	Due to Fund	Amount
Nonmajor Funds	General Fund	$ 50,881
General Fund	Nonmajor Funds	4,626
		$ 55,507

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made. Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Transfers of $ 22,000 were made from the Food Service Fund to the General Fund for indirect cost recovery. Additionally, transfers of $ 56,484 were made from the Transportation Fund to the General Fund for indirect cost recovery, as these funds were not restricted.

Note 6 - Unearned Revenue

Governmental funds report unearned revenue 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:

	Unearned
Prepaid student lunch balances	$ 13,250
Grant and categorical aid payments received prior to meeting all eligibility requirements	13,332
Total	$ 26,582

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 certain risk liabilities.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Notes Payable	$ 379,242	$ -	$ 91,684	$ 287,558	$ 92,654
Accrued compensated absences	128,687	196,799	192,574	132,912	132,912
Total	$ 507,929	$ 196,799	$ 284,258	$ 420,470	$ 225,566

For governmental activities, compensated absences and notes payable are primarily liquidated by the General Fund.

Notes Payable

The School District financed the acquisition of school buses with notes payable. Future payment obligations are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	$ 92,654	$ 6,927	$ 99,581
2020	93,793	4,685	98,478
2021	49,959	2,417	52,376
2022	51,152	1,222	52,374
	$ 287,558	$ 15,251	$ 302,809

Compensated Absences

Accrued compensated absences at year end, consist of accrued personal time benefits and accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Note 8 - State Aid Anticipation Note

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th.

Short-term debt activity for the year was as follows:

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	$ 2,000,000	$ 2,600,000	$ 2,000,000	$ 2,600,000

Note 9 - Risk Management

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

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. There were no unemployment expenditures for the year. No provision has been made for possible future claims.

Note 10 - 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 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 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.

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

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

Required contributions to the pension plan from the School District were $3,922,681 for the year ending 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 School District reported a liability of $ 43,339,165 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. The School 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 School District's proportion was .1672 percent, which was a decrease of .0034 percent from its proportion measured as of September 30, 2016. At September 30, 2017, the total pension expense for the School District was $ 3,971,597.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 376,647	$ 212,656
Changes of assumptions	4,748,150	-
Net difference between projected and actual earnings on pension plan investments	-	2,071,897
Changes in proportion and differences between the School District contributions and proportionate share of contributions	30,977	1,280,226
School District contributions subsequent to the measurement date	4,113,520	2,040,010
Total	$ 9,269,294	$ 5,604,789

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 (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future Pension Expenses)		
2018	$	263,324
2019		1,055,738
2020		458,111
2021		(186,178)

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.

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.

Recognition period for assets in years is 5.0000.

Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

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:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.6 %
Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	(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)
	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 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate
The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for the Hybrid Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage 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%
$ 56,456,516	$ 43,339,165	$ 32,295,190

**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 (MPSERS) Fiduciary Net Position
Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the Michigan Public School Employees' Retirement System (MPSERS)
There were no significant payables to the pension plan that are not ordinary accruals to the School District.

Note 11 - Post-employment Benefits Other Than Pensions (OPEB)

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

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

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.

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.

OPEB Contribution Rates

Benefit Structure	Member	Employer
Premium Subsidy	3.0%	5.91%
Personal Healthcare Fund (PHF)	0.0%	5.69%

Required contributions to the OPEB plan from the School District were $ 1,300,843 for the year ended September 30, 2017.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
At June 30, 2018, the School District reported a liability of $ 14,796,344 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 School 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 School District’s proportion was .1671 percent, which was unchanged from its proportion measured as of September 30, 2016. At September 30, 2017, the total OPEB expense for the School District was $ 989,778.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 157,538
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	342,687
Changes in proportion and differences between the School District contributions and proportionate share of contributions	386	-
School District contributions subsequent to the measurement date	895,358	-
Total	$ 895,744	$ 500,225

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 (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future OPEB Expenses)	
2018	$ (120,794)
2019	(120,794)
2020	(120,794)
2021	(120,794)
2022	(16,663)

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: 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.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.4744.

Recognition period for assets in years is 5.0000.

Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

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:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.6 %
Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	(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)
	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.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate
The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
$ 17,330,795	$ 14,796,344	$ 12,645,388

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate
The following presents the School District's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the School District's proportionate share of 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%
$ 12,530,514	$ 14,796,344	$ 17,369,035

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

Payables to the OPEB Plan
There were no significant payables to the OPEB plan that are not ordinary accruals to the School District.

Note 12 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the year June 30, 2018.

Note 13 - Tax Abatements

School Districts may receive reduced property tax revenues as a result of Industrial Facilities Tax exemptions and Brownfield Redevelopment Agreements granted by the various municipalities within the School District boundaries. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties.

For the fiscal year ended June 30, 2018, the School District’s property tax revenues were not reduced by any amounts under these programs.

There are no significant abatements made by the School District.

Note 14 - Adoption of New Accounting Standards

As indicated in Note 1, the School District has adopted Government Accounting Standards Board Statement 75. This required the School District to record their proportionate share of the net OPEB liability and OPEB expense. Previously, these amounts were not recorded on the School District’s statements. The standards require this change to be applied retroactively. The impact of this change is to reduce beginning net position in the statement of activities as of July 1, 2017 by $ 14,242,423, restating it from ($ 25,340,333) to ($ 39,582,756).

REQUIRED SUPPLEMENTARY INFORMATION

Clio Area Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Over
	Original	Final	Actual	(Under) Budget
Revenues				
Local sources	$ 2,779,279	$ 2,917,100	$ 2,915,130	$ (1,970)
State sources	25,123,057	25,173,007	25,205,738	32,731
Federal sources	1,431,417	1,363,754	1,360,169	(3,585)
Interdistrict sources	215,658	302,219	318,463	16,244
Total revenues	29,549,411	29,756,080	29,799,500	43,420
Expenditures				
Instruction				
Basic programs	14,907,804	14,553,984	14,651,348	97,364
Added needs	3,555,593	3,713,736	3,800,859	87,123
Supporting services				
Pupil	1,422,577	1,395,315	1,403,939	8,624
Instructional staff	1,014,781	1,000,005	971,925	(28,080)
General administration	453,789	449,902	428,794	(21,108)
School administration	2,152,136	1,968,800	2,015,579	46,779
Business	527,175	508,500	539,284	30,784
Operations and maintenance	2,336,308	2,442,630	2,409,309	(33,321)
Pupil transportation services	1,440,894	1,657,920	1,475,811	(182,109)
Central	706,895	699,568	661,577	(37,991)
Other supporting services	-	72,700	72,444	(256)
Athletic activities	546,429	542,700	553,224	10,524
Community services	292,003	571,218	541,595	(29,623)
Debt service				
Principal	90,000	91,700	91,684	(16)
Interest and fiscal charges	9,410	9,100	9,033	(67)
Total expenditures	29,455,794	29,677,778	29,626,405	(51,373)
Excess of revenues over expenditures	93,617	78,302	173,095	94,793

Clio Area Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Over
	Original	Final	Actual	(Under) Budget
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	2,200	2,274	74
Transfers in	80,000	95,000	78,484	(16,516)
Transfers out	(14,252)	(10,967)	-	(10,967)
Total other financing sources (uses)	65,748	86,233	80,758	(27,409)
Net change in fund balance	159,365	164,535	253,853	89,318
Fund balance - beginning	3,223,177	3,223,177	3,223,177	-
Fund balance - ending	$ 3,382,542	$ 3,387,712	$ 3,477,030	$ 89,318

Clio Area Schools

Required Supplementary Information

Schedule of the School District's Proportionate Share of the Net Pension Liability

Michigan Public School Employees Retirement Plan

Last 10 Fiscal Years (Measurement Date September 30th, of Each June Fiscal Year)

		2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A.	School district's proportion of the net pension liability (%)	0.1672%	0.1707%	0.1710%	0.1776%						
B.	School district's proportionate share of the net pension liability	$ 43,339,165	$ 42,582,954	$ 41,769,788	$ 39,118,050						
C.	School district's covered-employee payroll	$ 13,822,854	$ 14,408,819	$ 14,273,917	$ 15,270,293						
D.	School district's proportionate share of the net pension liability as a percentage of its covered-employee payroll	313.53%	295.53%	292.63%	256.17%						
E.	Plan fiduciary net position as a percentage of total pension liability	64.21%	63.27%	63.17%	66.20%						

Notes:

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2017.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2017.

Clio Area Schools
Required Supplementary Information
Schedule of the School District's Pension Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

		For the Years Ended June 30,									
		2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A.	Statutorily required contributions for the measurement period	$ 4,470,488	$ 2,550,323	$ 2,686,171	$ 3,217,031						
B.	Contributions in relation to statutorily required contributions	$ 4,470,488	$ 2,550,323	$ 2,686,171	$ 3,217,031						
C.	Contribution deficiency (excess)	$ -	$ -	$ -	$ -						
D.	School district's covered-employee payroll	$13,621,666	$13,547,197	$13,884,740	$14,537,616						
E.	Contributions as a percentage of covered-employee payroll	32.82%	18.83%	19.35%	22.13%						

Clio Area Schools
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net OPEB Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th, of Each June Fiscal Year)

		2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A.	School district's proportion of the net OPEB liability (%)	0.1671%									
B.	School district's proportionate share of the net OPEB liability	$ 14,796,344									
C.	School district's covered-employee payroll	$ 13,822,854									
D.	School district's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	107.04%									
E.	Plan fiduciary net position as a percentage of total OPEB liability	36.39%									

Notes:

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2017.
Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2017.

Clio Area Schools
Required Supplementary Information
Schedule of the School District's OPEB Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

		For the Years Ended June 30,									
		2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A.	Statutorily required contributions for the measurement period	$ 1,006,907									
B.	Contributions in relation to statutorily required contributions	$ 1,006,907									
C.	Contribution deficiency (excess)	$ -									
D.	School district's covered-employee payroll	$ 13,621,666									
E.	Contributions as a percentage of covered-employee payroll	7.39%									

OTHER SUPPLEMENTARY INFORMATION

Clio Area Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2018

	Special Revenue Fund		Capital Projects Fund	
	Food Service	Transportation	Sinking Fund	Total Nonmajor Governmental Funds
Assets				
Cash	$ 621,711	$ -	$ 43,334	$ 665,045
Accounts receivable	-	29,041	-	29,041
Due from other funds	4,232	-	394	4,626
Due from other governmental units	4,328	-	-	4,328
Inventory	13,464	-	-	13,464
Total assets	$ 643,735	$ 29,041	$ 43,728	$ 716,504

Clio Area Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2018

	Special Revenue Fund		Capital Projects Fund	
	Food Service	Transportation	Sinking Fund	Total Nonmajor Governmental Funds
Liabilities and Fund Balance				
Liabilities				
Accounts payable	$ 45,310	$ 160	$ -	$ 45,470
Due to other funds	22,000	28,881	-	50,881
Unearned revenue	13,250	-	-	13,250
Total liabilities	80,560	29,041	-	109,601
Fund Balance				
Non-spendable				
Inventory	13,464	-	-	13,464
Restricted for				
Food service	549,711	-	-	549,711
Capital projects	-	-	43,728	43,728
Total fund balance	563,175	-	43,728	606,903
Total liabilities and fund balance	$ 643,735	$ 29,041	$ 43,728	$ 716,504

Clio Area Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2018

	Special Revenue Fund		Capital Projects Fund	Total Nonmajor Governmental Funds
	Food Service	Transportation	Sinking Fund	
Revenues				
Local sources	$ 308,468	$ 422,629	$ 962,513	$ 1,693,610
State sources	23,792	-	-	23,792
Federal sources	968,148	-	-	968,148
Total revenues	1,300,408	422,629	962,513	2,685,550
Expenditures				
Current				
Education				
Supporting services	-	366,145	-	366,145
Food services	1,144,201	-	-	1,144,201
Capital outlay	-	-	808,688	808,688
Total expenditures	1,144,201	366,145	808,688	2,319,034
Excess of revenues over expenditures	156,207	56,484	153,825	366,516
Other Financing Uses				
Transfers out	(22,000)	(56,484)	-	(78,484)
Net change in fund balance	134,207	-	153,825	288,032
Fund balance - beginning	428,968	-	(110,097)	318,871
Fund balance - ending	$ 563,175	$ -	$ 43,728	$ 606,903

Clio Area Schools

Single Audit Report

June 30, 2018

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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*

Independent Auditors' Report

Management and the Board of Education
Clio Area Schools
Clio, Michigan

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 Clio Area Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Clio Area Schools' basic financial statements, and have issued our report thereon dated September 11, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Clio 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 Clio Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Clio 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clio 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.

Yeo & Yeo, P.C.

Flint, Michigan
September 11, 2018

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Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditors' Report

Management and the Board of Education
Clio Area Schools
Clio, Michigan

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Clio 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 Clio 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 Clio Area Schools' compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of Clio 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 Clio 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 Clio 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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clio Area Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Clio Area Schools' basic financial statements. We issued our report thereon dated September 11, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Yeo & Yeo, P.C.

Flint, Michigan
September 11, 2018

Clio Area Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Award Grant Entitlement Program Amount	Inventory/ Accrued (Unearned) Revenue at July 1, 2017	Prior Year Expenditures	Current Year Expenditures	Current Year Cash Payments/ In Kind Received	Inventory/ Accrued (Unearned) Revenue at June 30, 2018
U.S. DEPARTMENT OF AGRICULTURE							
Child Nutrition Cluster							
Passed through Michigan Department of Education							
Non-Cash Assistance							
Entitlement Commodities	10.555	$ 82,600	$ -	$ -	$ 82,600	$ 82,600	$ -
Cash Assistance							
School Breakfast Program	10.553						
171970		228,758	10,541	205,184	23,574	34,115	-
181970		212,413	-	-	212,413	212,413	-
Total School Breakfast Program		441,171	10,541	205,184	235,987	246,528	
National School Lunch Program	10.555						
171960		591,824	24,480	528,971	62,853	87,333	-
171980		3,463	-	2,859	604	604	-
181960		564,130	-	-	564,130	564,130	-
181980		3,728	-	-	3,728	3,728	-
Total National School Lunch Program		1,163,145	24,480	531,830	631,315	655,795	-
Summer Food Service Program for Children	10.559						
170900		16,825	-	-	16,825	16,825	-
171900		1,421	-	-	1,421	1,421	-
Total Summer Food Service Program for Children		18,246	-	-	18,246	18,246	-
Total Cash Assistance		1,622,562	35,021	737,014	885,548	920,569	-
Total Child Nutrition Cluster		1,705,162	35,021	737,014	968,148	1,003,169	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE		1,705,162	35,021	737,014	968,148	1,003,169	-
U.S. DEPARTMENT OF EDUCATION							
Special Education Cluster							
Passed through the Genesee Intermediate School District							
Special Education Grants to States	84.027						
170450-1617		606,620	133,331	606,620	-	133,331	-
180450-1718		616,199	-	-	616,199	403,133	213,066
Total Special Education Grants to States		1,222,819	133,331	606,620	616,199	536,464	213,066

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Clio Area Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Award Grant Entitlement Program Amount	Inventory/ Accrued (Unearned) Revenue at July 1, 2017	Prior Year Expenditures	Current Year Expenditures	Current Year Cash Payments/ In Kind Received	Inventory/ Accrued (Unearned) Revenue at June 30, 2018
Special Education Preschool Grants	84.173						
180460-1718		13,315	-	-	13,315	13,315	-
Total Special Education Cluster		1,236,134	133,331	606,620	629,514	549,779	213,066
Passed through the Michigan Department of Education							
Title I, Part A - Grants to Local Educational Agencies	84.010						
171530-1617		517,553	107,553	517,553	-	107,553	-
181530-1718		482,485	-	-	482,485	416,915	65,570
Total Title I, Part A - Grants to Local Educational Agencies		1,000,038	107,553	517,553	482,485	524,468	65,570
Passed through Genesee Intermediate School District							
Career and Technical Education - Basic Grants to States Regional Allocation (Perkins)	84.048						
183520-1812-15		26,900	-	-	26,900	26,900	-
Passed through the Michigan Department of Education							
Title III Part A English Language Acquisition State Grants	84.365						
180570-1718		625	-	-	625	625	-
Passed through the Michigan Department of Education							
Title II, Part A Supporting Effective Instruction State Grants	84.367						
110520-1011		-	(32,814)	-	-	(32,814)	-
170520-1617		176,738	19,390	129,390	-	19,390	-
180520-1718		155,282	-	-	153,711	131,810	21,901
Total Title II, Part A Supporting Effective Instruction State Grants		332,020	(13,424)	129,390	153,711	118,386	21,901
Passed through Genesee Intermediate School District							
Investing in Innovation Fund (i3)	84.411B						
2016		47,000	248	30,325	-	248	-
2017		42,665	14,806	14,806	-	14,806	
2018		65,573	-	-	54,409	41,909	12,500
Total Investing in Innovation		155,238	15,054	45,131	54,409	56,963	12,500
Passed through the Michigan Department of Education							
Title IV Part A Student Support and Academic Enrichment Program	84.424						
180750-1718		10,000	-	-	9,975	9,975	-
TOTAL U.S. DEPARTMENT OF EDUCATION		2,760,955	242,514	1,298,694	1,357,619	1,287,096	313,037

Clio Area Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Award Grant Entitlement Program Amount	Inventory/ Accrued (Unearned) Revenue at July 1, 2017	Prior Year Expenditures	Current Year Expenditures	Current Year Cash Payments/ In Kind Received	Inventory/ Accrued (Unearned) Revenue at June 30, 2018
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES							
Medicaid Cluster							
Passed through Genesee Intermediate School District							
Medical Assistance Program	93.778						
Medicaid Outreach 17-18		2,955	-	-	2,550	2,550	-
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES		2,955	-	-	2,550	2,550	-
TOTAL FEDERAL AWARDS		$ 4,469,072	$ 277,535	$ 2,035,708	$ 2,328,317	$ 2,292,815	$ 313,037

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

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

Note 2 - Summary of Significant Accounting Policies

Expenditures
Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance where certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate
Clio Area Schools has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Reconciliation to Financial Statements

The federal revenues per the financial statements are in agreement with the SEFA.

Note 4 - Funds Transferred to Subrecipients

The Schools District did not transfer any federal funds to subrecipients during the fiscal year.

Note 5 - Michigan Department of Education Disclosures

The federal amounts reported on the grant auditor report are in agreement with the SEFA.

The amounts reported on the recipient entitlement balance report agree with the SEFA for U.S.D.A. donated food commodities.

Clio Area Schools
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements were prepared in accordance with Generally Accepted Accounting Principles:			Unmodified	
Internal control over financial reporting:				
• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?		Yes	X	None reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major programs:				
• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?		Yes	X	None reported
Type of auditors' report issued on compliance for major programs:			Unmodified	
Any audit findings disclosed that are required to be reported in accordance with §200.516(a)?		Yes	X	No

Clio Area Schools
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Identification of major programs:

CFDA Numbers	*Name of Federal Program*
84.027/84.173	Special Education Cluster

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

Auditee qualified as low-risk auditee: X Yes ____ No

Section II - Financial Statement Findings

No matters were noted.

Section III - Federal Award Findings and Questioned Costs

No matters were noted.

Section IV - Prior Year Audit Findings

No matters were noted.

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September 11, 2018

Management and the Board of Education
Clio Area Schools
Clio, Michigan

We have completed our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clio Area Schools as of and for the year ended June 30, 2018, and have issued our report dated September 11, 2018. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 29, 2018. Professional standards also require that we communicate to you the following information related to our audit.

<u>Significant Audit Findings</u>

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 of the financial statements. Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 of the financial statements. The School District has adopted the new Government Accounting Standards Board Statements as noted in the notes to the financial statements, effective July 1, 2017.

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 Clio Area Schools' financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.

- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

- Net OPEB liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole and free from bias.

Disclosures in the financial statements are neutral, consistent and clear.

Accounting Standards and Regulatory Updates

Accounting Standards
The Governmental Accounting Standards Board has released the following Statements:

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The criteria generally is on (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020

Statement No. 87, *Leases* increases the usefulness of the District's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the District's leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the District's financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities districts should include when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

The School District is evaluating the impact the above pronouncements will have on its financial reporting.

Regulatory and Other Updates

Cybersecurity Posture

Cybersecurity posture, an overall measure of cybersecurity strength, is more prevalent than ever as organizations continue to face cybersecurity risks. Billions of emails are sent every day, some of which contain attachments with malicious files or malicious embedded links aimed at negatively impacting unsuspecting organizations. A recent study showed as many as four out of five U.S. companies have suffered from an attack. Not only can a successful attack cost thousands of dollars and put a strain on IT resources while remediation efforts are underway, but sensitive information may be breached.

Risk assessment is a first step in mitigating cybersecurity risks and improving your School District's overall cybersecurity posture. The National Institute of Standards and Technology published *Framework for Improving Critical Infrastructure Cybersecurity*, which "enables organizations, regardless of size, degree of cybersecurity risk, or cybersecurity sophistication, to apply the principles and best practices of risk management to improving the security and resilience of critical infrastructure." The framework is designed to cover five areas including identification, protection, detection, responsiveness and recovery. The publication can be found at www.nist.gov.

Placing significant emphasis on evaluating your School District's cybersecurity posture, and channeling sufficient resources towards proper risk assessment, implementation, and education will reduce the likelihood of a cybersecurity threat, and help lessen the impact of a breach.

Uniform Guidance – Implementation of Federal Grant Procurement Standards

In May 2017, the federal government granted an additional one-year delay for implementation of the procurement standards under the Uniform Guidance. The grace period now extends through December 25, 2017. Therefore entities with fiscal years beginning on or after December 26, 2017 must have procurement standards, for federal expenditures, that meet the more stringent requirements of 2 CFR 200.317 to 326. For school districts, it will apply to fiscal year 2019 and therefore, must be in place starting July 1, 2018. It is imperative that your procurement policies – whatever they are documented as – be followed. The Uniform Guidance and the old guidance in the OMB Circulars provide minimum requirements that must be covered by an entity's procurement policies. If an entity's policies are stricter than the federal rules, the entity policies still must be followed. As you adopt new procurement policies, we also recommend that you consider separate policies for federal and non-federal expenditures to ease the administrative burden of certain federal requirements.

Michigan Department of Education has put out sample procedures covering all the required items, including procurement, on their website.

Fiscal Year (FY) 2019 School Aid

The School Aid budget for FY 2019 was signed in June, 2018. Following are some significant highlights of the bill:

- The per pupil Foundation Grants for FY 2019 will increase by a range of $120 to $240 using the "2X formula." The increase will be added to the FY 2018 foundation grant resulting in the lowest foundation for FY 2018 being $7,871 and the maximum state guaranteed foundation being $8,409.
- The Pupil Membership Blend will remain at 90% of the current school year October count and 10% of the prior school year February count.
- The Section 31a At-Risk funding is maintained at $499,000,000. Eligibility expanded to include grades K-12, from K-3, and shall use resources to address early literacy and numeracy through an evidence-based framework that uses data-driven problem solving though a multi-tiered system of supports. Adds language that for schools in which more than 40% of pupils are identified as At-Risk, a district may use the funds it receives to implement schoolwide reforms that are guided by the district's comprehensive needs assessment and are included in the district improvement plan. Allows for up to 5% to be used for professional development.
- The per pupil funding under Section 20f will be equal to the per pupil funding in 2017-18.
- A New Section 31m has been created as a separate account to improve mental health and support services for K-12 pupils. A deposit of $30 million has been allocated for this purpose.

- A new Section 54d appropriates $5 million in grant funds for intermediate districts to provide pilot programs for children from birth to 3 years of age with developmental disability and/or delay.
- Section 147c has a MPSERS rate cap funding set at $1.03 billion, which is an increase of $72 million. The rate cap is estimated at $690 per pupil.
- Section 147e includes $37.6 million allocated as a direct reimbursement for additional retirement costs for specific qualified participants due to PA 92 of 2017.

Budget Assumptions & Early Warning
Each school district that has a general fund balance less than 5% of total unrestricted general revenue for either of the 2015-2016 or 2016-2017 school fiscal years is required to submit budget assumptions to the Center for Educational Performance and Information (CEPI).

Uniform Budgeting and Accounting Act (UBAA)
The UBAA establishes budget and accounting requirements for local governments and school districts, including public school academies. It also establishes oversight requirements for MDE as well as the Michigan Attorney General. Material violations of the UBAA, including but not limited to General Fund deficits, should be reported as financial statement findings in the audit report. UBAA states that if it becomes apparent during the year that the probable revenues will be less than the budgeted revenues, the fiscal officer shall present recommendations to the legislative body which, if fiscal adopted, would prevent expenditures from exceeding available revenues for the fiscal year. UBAA states that an officer of the school district shall not incur expenditures against an appropriation account in excess of the amount appropriated by the board. Noncompliance includes, but is not limited to, over-expending the budget authorized by the board. MDE is analyzing the General Fund only, and at the total revenues, expenditures and financing sources (uses) levels, rather than at the line item level. MDE has stated a 0% tolerance for UBAA noncompliance.

Current Operating Expenditures (COE) for UAAL
Effective for the plan year ended September 30, 2019, the percentage change in Current Operating Expenditures (COE) from one year to the next will be used to adjust the payroll on which the UAAL rate is charged. FY 2017 (September) reported payroll will be adjusted by the percent change in COE from 2016 to 2017 to establish the FY19 adjusted payroll. The capped UAAL rate of 20.96% continues to be used in the calculation. ORS has put examples on their website to walk the school district through the calculation.

- UAAL contributions will no longer be calculated on member wages reported throughout the FY.
- This did not affect the 2018 fiscal year, but will impact the 2019 fiscal year.
- The FY 2019 payment process for contributions will be spread out over all Employer Statements in State FY 2019 (October 2018 through September 2019).

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 that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

There were no uncorrected misstatements that were more than trivial.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report we had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other 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 School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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 School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Emphasis of Matters in Independent Auditors' Report

Our report will include the following emphasis of matter paragraph:

Adoption of New Accounting Standards
As described in Note 1 to the financial statements, during the year ended June 30, 2018, the School District adopted GASB Statement no. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinions are not modified with respect to this matter.

Other Reports

Other information that is required to be reported to you is included in the: Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditors' Report on Compliance For Each Major Federal Program; Independent Auditors' Report on Internal Control Over Compliance; Independent Auditors' Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance; and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Report on Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, schedule of the school district's proportionate share of the net pension liability, schedule of the school district's pension contributions, schedule of the school district's proportionate share of the net OPEB liability, schedule of the school district's OPEB contributions, and budgetary comparison information, we 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 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.

Report on Other Supplementary Information

With respect to the other supplementary information accompanying the financial statements, 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.

We discussed these matters with various personnel in the School District during the audit and have already met with management on during fieldwork. We will meet with you on September 27, 2018 to discuss these matters.

Restriction on Use

These communications are intended solely for the information and use of management, the Board of Education, and others within the School District, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Flint, Michigan