

Linden
Community
Schools



Year Ended
June 30, 2018

Financial
Statements and
Single Audit Act
Compliance

LINDEN COMMUNITY SCHOOLS

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INDEPENDENT AUDITORS' REPORT

September 28, 2018

Board of Education
Linden Community Schools
Linden, 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 the *Linden Community Schools* (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the 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.

Independent 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 contain 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 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 the District, as of June 30, 2018, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year ended June 30, 2018 in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB Statement No. 75

As described in Note 15, the District implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in the current year. Accordingly, beginning net position was restated. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the schedules for the pension and other postemployment plans, as listed 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 the District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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 28, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Rehmann Lobson LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

LINDEN COMMUNITY SCHOOLS

Management's Discussion and Analysis

As management of Linden Community Schools (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018.

Financial Highlights

- The district's total net position increased by \$492,367 from the prior year.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,756,138, a decrease of \$1,138,744 in comparison with the prior year. Approximately 62.0% or \$1,708,273 is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,708,273 or 6.2% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-Wide Financial Statements. The *district-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets, deferred outflows, liabilities, and deferred inflows with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the District-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, support services, food service and community service. The District had no business type activities as of and for the year ended June 30, 2018.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

LINDEN COMMUNITY SCHOOLS

Management's Discussion and Analysis

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the District-wide financial statements. However, unlike the District-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near term financing requirements.

Because the focus of governmental funds is narrower than that of the District-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the District-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains several individual governmental funds and two fiduciary funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and sinking fund capital projects fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. A budgetary comparison statement has been provided for the general fund, the major fund, herein to demonstrate compliance with that budget.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the District-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management's discussion and analysis and the schedules for the MPSERS pension and other postemployment plans immediately following the notes to the financial statements. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the pension and other postemployment plans required supplementary information.

LINDEN COMMUNITY SCHOOLS

Management's Discussion and Analysis

District-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, the District reported a deficit net position of \$(29,790,278).

	Net Position	
	2018	2017
Assets		
Current and other assets	\$ 8,347,475	\$ 8,839,353
Capital assets, net	33,676,896	33,583,950
Total assets	<u>42,024,371</u>	<u>42,423,303</u>
Deferred outflows of resources	<u>11,262,581</u>	<u>7,225,197</u>
Liabilities		
Current and other liabilities	5,719,418	5,083,001
Net pension liability	40,376,834	39,036,755
Net other postemployment benefits liability	13,780,284	-
Long-term liabilities outstanding	20,462,290	22,262,878
Total liabilities	<u>80,338,826</u>	<u>66,382,634</u>
Deferred inflows of resources	<u>2,738,404</u>	<u>123,442</u>
Net position		
Net investment in capital assets	14,417,371	12,643,675
Restricted	708,453	1,409,429
Unrestricted	(44,916,102)	(30,910,680)
Total net position	<u>\$ (29,790,278)</u>	<u>\$ (16,857,576)</u>

A portion of the District's net position reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is in a deficit position at June 30, 2018 and 2017.

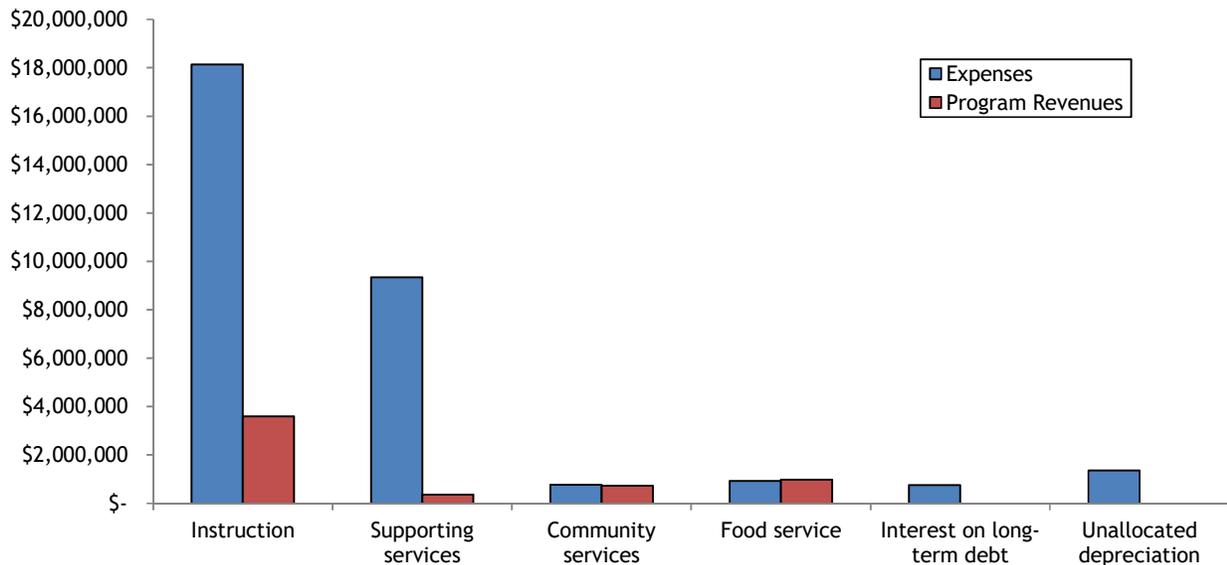
The District's net position increased by \$492,367 during the current fiscal year. This is compared to an increase of \$947,402 in the prior year. District-wide revenue exceeded expenses for the eighth year in a row. Revenue increased over the prior year mainly due to increased per pupil funding and additional state retirement offsets. Operating expenses increased \$1,035,544 due to an increase in special education staff, along with wage and benefit increases.

LINDEN COMMUNITY SCHOOLS

Management's Discussion and Analysis

	Change in Net Position	
	2018	2017
Revenue		
Program revenues:		
Charges for services	\$ 1,390,226	\$ 1,553,382
Operating grants and contributions	4,276,704	3,798,943
General revenues:		
Property taxes	4,936,326	5,187,776
Unrestricted state school aid	20,928,297	20,450,154
Grants and contributions not restricted to specific programs	226,080	200,963
Other	32,846	18,752
Total revenues	31,790,479	31,209,970
Expenses		
Instruction	18,133,321	17,523,902
Supporting services	9,346,622	8,921,000
Community services	765,135	735,697
Food service	930,119	933,615
Interest on long-term debt	760,105	809,902
Unallocated depreciation	1,362,810	1,338,452
Total expenses	31,298,112	30,262,568
Change in net position	492,367	947,402
Net position, beginning of year	(16,857,576)	(17,804,978)
Restatement for implementation of GASB 75	(13,425,069)	-
Net position, end of year	\$ (29,790,278)	\$ (16,857,576)

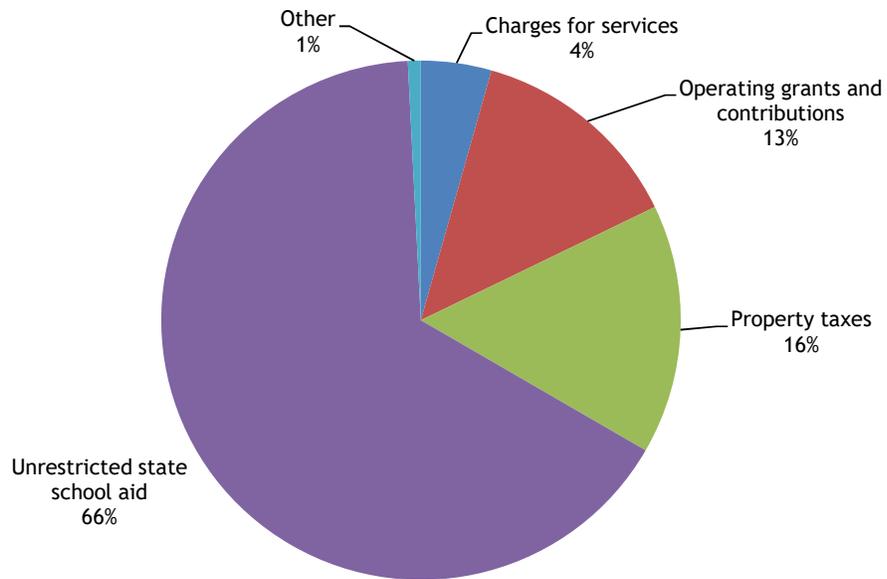
Expenses and Program Revenues - Governmental Activities



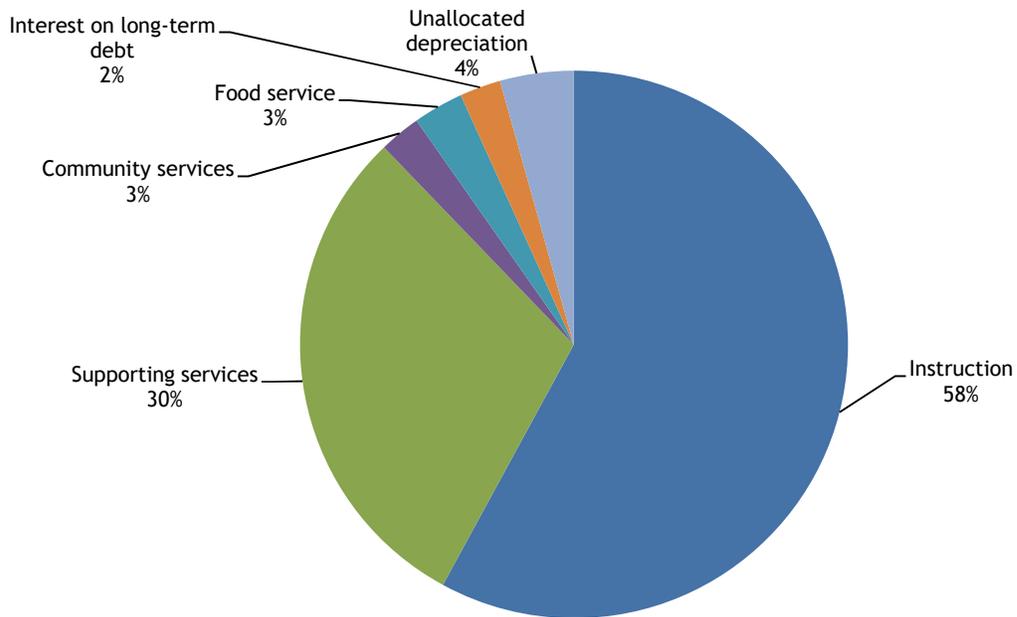
LINDEN COMMUNITY SCHOOLS

Management's Discussion and Analysis

Revenues by Source - Governmental Activities



Expenses by Source - Governmental Activities



LINDEN COMMUNITY SCHOOLS

Management's Discussion and Analysis

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,756,138 a decrease of \$1,138,744 in comparison with the prior year. Approximately 62.0% of this total amount (\$1,708,273) constitutes unassigned fund balance, which is available for spending at the government's discretion. Another portion of fund balance is restricted to indicate that it is not available for new spending because it is constrained to specific purposes by the providers or by legal means. The final portion of fund balance is nonspendable, which means the underlying assets are not in a spendable form (e.g. prepaids and inventory), or are required to remain intact (e.g. corpus of a scholarship bequest) and are not available for current expenditure.

The general fund is the chief operating fund of the District, and represents the District's unassigned fund balance. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,708,273. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents approximately 6.2 percent of general fund expenditures.

General Fund Budgetary Highlights

Differences between the original and final amended budgets were fairly minor. As additional information became available throughout the year, subsequent budget amendments adjusted revenue and expenditures as necessary. Overall, revenue increased by 3.5%, due to state retirement funding, and expenditures increased by approximately 4.4% due mainly to the offsetting retirement cost.

Differences between the final amended budget and actual results were relatively small. Both total revenues and total expenditures were off by 2% or less, with revenues coming in flat and expenditures coming in under budget by 1.6%.

LINDEN COMMUNITY SCHOOLS

Management's Discussion and Analysis

	Original Budget	Final Budget	Actual
Revenue			
Local sources	\$ 2,282,266	\$ 2,159,979	\$ 2,207,516
State sources	22,200,690	22,897,685	22,916,328
Federal sources	1,133,778	1,419,943	1,296,287
Transfers from other districts	495,000	548,000	601,600
Total revenue	26,111,734	27,025,607	27,021,731
Expenditures			
Instruction	17,165,084	18,036,260	18,005,662
Supporting services	9,531,123	9,833,492	9,415,997
Debt service	29,050	27,550	27,393
Total expenditures	26,725,257	27,897,302	27,449,052
Net change in fund balances	(613,523)	(871,695)	(427,321)
Fund balances, beginning of year	2,346,925	2,346,925	2,346,925
Fund balances, end of year	\$ 1,733,402	\$ 1,475,230	\$ 1,919,604

During the year, there was a \$1,172,045 increase in appropriations between the original and final amended budget. Following are the main components of the change:

- Unanticipated additional revenue became available through State categorical funding; primarily Retirement Stabilization funds, which brought additional pass through retirement costs.
- More students reported to school than were anticipated in original budget planning.
- Additional salary and benefits costs resulted from settled labor negotiations.

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets, which includes construction, land improvements, machinery and equipment, vehicles, and construction in progress for its governmental activities as of June 30, 2018, amounted to \$33,676,896 (net of accumulated depreciation), which is an increase from the prior year's investment of \$33,583,950. The increase in the District's investment in capital assets was mostly due to capital additions, such as the stadium improvements, outpacing the current year depreciation on existing assets. Additions have increased after saving up Sinking Fund revenues to pay for these improvements.

LINDEN COMMUNITY SCHOOLS

Management's Discussion and Analysis

Major capital asset events during the current fiscal year included the following:

- Construction in progress for stadium improvements at Linden High School amounted to slightly over \$1.1 million dollars. These projects will be completed during the 2018-19 fiscal year.
- Completion of HVAC improvements at Hyatt Elementary and Linden High School amounted to \$217,665. These projects were begun during the 2016-17 fiscal year and cost just under \$1,000,000.

	Capital Assets (Net of Depreciation)	
	2018	2017
Construction	\$ 28,455,805	\$ 29,381,964
Land Improvements	2,999,969	3,310,943
Machinery and equipment	1,053,210	161,313
Busses and vehicles	23,257	4,142
Construction in progress	1,144,655	725,588
Total capital assets, net	\$ 33,676,896	\$ 33,583,950

Additional information on the District's capital assets can be found in Note 6 of this report.

Long-Term Debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$18,600,000. The District's total debt decreased by \$1,800,588.

Additional information on the District's long-term debt can be found in Note 8 of this report.

Economic Factors and Next Year's Budget and Rates

The following factors will affect the District in the future and were considered in preparing the District's budget for the 2018-19 fiscal year:

- For 2018-19 the minimum foundation allowance will be \$7,871, which will be \$240 more than the 2017-18 fiscal year.
- During 2011-12 the State of Michigan enacted PA 152, which caps the amount the District can legally spend on employee health insurance. Any costs exceeding the state imposed caps must be borne by the employee receiving the benefit. The District estimated the cap will raise, based on the medical CPI rate, 3.0% for the 2017-18 fiscal year, which increases the District's costs.
- Retirement reform has been enacted to cap the contribution rate at approximately 25.78%; however, the difference between this cap and the actuarial rate has been shifted to the School Aid Fund putting pressure on state funding sources.
- Collective bargaining resulted in wage increases approximating 1.0%, which will increase anticipated salary and benefit expenditures.
- The District's utilities (natural gas, electric, diesel fuel) have been volatile over the last few years. These increases/decreases are based on market and weather conditions and always place a certain level of uncertainty on the District's budget projections.
- Local housing data, state economic data, local birth rates and various factors led the District to project a loss of enrollment of approximately 60 students for the 2018-19 budget bringing the projected blended count to 2,735. State-wide pupil enrollment has been declining steadily since 2003.

LINDEN COMMUNITY SCHOOLS

Management's Discussion and Analysis

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant Superintendent, 7205 West Silver Lake Rd, Linden, MI 48451.

BASIC FINANCIAL STATEMENTS

LINDEN COMMUNITY SCHOOLS

Statement of Net Position

June 30, 2018

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,236,459
Receivables	4,895,471
Prepaid items and other assets	215,545
Capital assets not being depreciated	1,144,655
Capital assets being depreciated, net	<u>32,532,241</u>
Total assets	<u>42,024,371</u>
Deferred outflows of resources	
Loss on advance bond refundings, net	892,198
Deferred pension amounts	9,503,100
Deferred other postemployment benefits amounts	<u>867,283</u>
Total deferred outflows of resources	<u>11,262,581</u>
Liabilities	
Accounts payable and accrued liabilities	3,411,373
State aid note payable	2,242,345
Unearned revenue	65,700
Current portion of long-term debt	1,839,371
Long-term debt, net of current portion	18,622,919
Net pension liability	40,376,834
Net other postemployment benefits liability	<u>13,780,284</u>
Total liabilities	<u>80,338,826</u>
Deferred inflows of resources	
Deferred pension amounts	2,272,530
Deferred other postemployment benefits amounts	<u>465,874</u>
Total deferred inflows of resources	<u>2,738,404</u>
Net position	
Net investment in capital assets	14,417,371
Restricted for food service	263,248
Restricted for community service	144,605
Restricted for debt service	178,852
Restricted for capital projects	121,748
Unrestricted (deficit)	<u>(44,916,102)</u>
Total net position	<u><u>\$ (29,790,278)</u></u>

The accompanying notes are an integral part of these financial statements.

LINDEN COMMUNITY SCHOOLS

Statement of Activities

For the Year Ended June 30, 2018

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 18,133,321	\$ 354,585	\$ 3,239,036	\$ (14,539,700)
Supporting services	9,346,622	63,870	297,424	(8,985,328)
Community service	765,135	477,384	258,509	(29,242)
Food service	930,119	494,387	481,735	46,003
Interest on long-term debt	760,105	-	-	(760,105)
Unallocated depreciation	1,362,810	-	-	(1,362,810)
Total governmental activities	\$ 31,298,112	\$ 1,390,226	\$ 4,276,704	(25,631,182)
General revenues				
Property taxes				4,936,326
Unrestricted state aid				20,928,297
Grants and contributions not restricted to specific programs				226,080
Unrestricted investment earnings				32,846
Total general revenues				26,123,549
Change in net position				492,367
Net position, beginning of year, as restated				(30,282,645)
Net position, end of year				\$ (29,790,278)

The accompanying notes are an integral part of these financial statements.

LINDEN COMMUNITY SCHOOLS

Balance Sheet

Governmental Funds

June 30, 2018

	General Fund	Sinking Fund - Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,840,435	\$ 592,485	\$ 803,539	\$ 3,236,459
Accounts receivable	1,552	-	12,096	13,648
Due from other governments	4,827,610	-	54,213	4,881,823
Inventory	-	-	4,214	4,214
Prepaid items	211,331	-	-	211,331
Total assets	\$ 6,880,928	\$ 592,485	\$ 874,062	\$ 8,347,475
Liabilities				
Accounts payable	\$ 342,519	\$ 564,357	\$ 619	\$ 907,495
Salaries and benefits payable	2,351,386	-	24,411	2,375,797
Unearned revenue	25,074	-	40,626	65,700
Notes payable	2,242,345	-	-	2,242,345
Total liabilities	4,961,324	564,357	65,656	5,591,337
Fund balances				
Nonspendable:				
Inventory	-	-	4,214	4,214
Prepaid items	211,331	-	-	211,331
Restricted:				
Food service	-	-	259,034	259,034
Community service	-	-	144,605	144,605
Debt service	-	-	306,933	306,933
Capital projects	-	28,128	93,620	121,748
Unassigned	1,708,273	-	-	1,708,273
Total fund balances	1,919,604	28,128	808,406	2,756,138
Total liabilities and fund balances	\$ 6,880,928	\$ 592,485	\$ 874,062	\$ 8,347,475

The accompanying notes are an integral part of these financial statements.

LINDEN COMMUNITY SCHOOLS

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2018

Fund balances - total governmental funds	\$ 2,756,138
Amounts reported for <i>governmental activities</i> in the statement of net position are 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	1,144,655
Capital assets being depreciated, net	32,532,241
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Bonds payable	(18,600,000)
Installment purchases payable	(26,049)
Unamortized loss on refunding	892,198
Unamortized bond premium/discount	(1,619,294)
Accrued interest on bonds payable	(128,081)
Compensated absences	(216,947)
Certain pension and other postemployment benefit-related amounts, such as the net pension liability, net other postemployment benefit liability, and deferred amounts are not due and payable in the current period or do not represent current financial and therefore are not reported in the funds.	
Net pension liability	(40,376,834)
Deferred outflows related to the net pension liability	9,503,100
Deferred inflows related to the net pension liability	(2,272,530)
Net other postemployment benefits liability	(13,780,284)
Deferred outflows related to the net other postemployment benefits liability	867,283
Deferred inflows related to the net other postemployment benefits liability	(465,874)
Net position of governmental activities	<u>\$ (29,790,278)</u>

The accompanying notes are an integral part of these financial statements.

LINDEN COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2018

	General Fund	Sinking Fund - Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 2,207,516	\$ 800,683	\$ 3,180,979	\$ 6,189,178
State sources	22,916,328	12,121	350,560	23,279,009
Federal sources	1,296,287	-	424,405	1,720,692
Transfers from other districts	601,600	-	-	601,600
Total revenues	27,021,731	812,804	3,955,944	31,790,479
Expenditures				
Education:				
Instruction	18,005,662	-	-	18,005,662
Support services	9,415,997	-	-	9,415,997
Food service activities	-	-	926,882	926,882
Community services	-	-	637,911	637,911
Debt service:				
Principal	26,049	-	1,585,000	1,611,049
Interest	1,344	36	846,671	848,051
Capital outlay	-	1,468,545	15,126	1,483,671
Total expenditures	27,449,052	1,468,581	4,011,590	32,929,223
Net change in fund balances	(427,321)	(655,777)	(55,646)	(1,138,744)
Fund balances, beginning of year	2,346,925	683,905	864,052	3,894,882
Fund balances, end of year	\$ 1,919,604	\$ 28,128	\$ 808,406	\$ 2,756,138

The accompanying notes are an integral part of these financial statements.

LINDEN COMMUNITY SCHOOLS

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2018

Net change in fund balances - total governmental funds	\$ (1,138,744)
Amounts reported for <i>governmental activities</i> in the statement of activities are 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.	
Capital assets purchased/constructed	1,455,756
Depreciation expense	(1,362,810)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Principal payments on long-term liabilities	1,611,049
Amortization of loss on refunding and bond premiums/discounts	77,497
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Change in net pension liability and related deferred amounts	(223,241)
Change in OPEB liability and related deferred amounts	46,195
Change in accrued interest payable on bonds and loans	10,448
Change in the accrual for compensated absences	16,217
Change in net position of governmental activities	<u><u>\$ 492,367</u></u>

The accompanying notes are an integral part of these financial statements.

LINDEN COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources	\$ 2,282,266	\$ 2,159,979	\$ 2,207,516	\$ 47,537
State sources	22,200,690	22,897,685	22,916,328	18,643
Federal sources	1,133,778	1,419,943	1,296,287	(123,656)
Transfers from other districts	495,000	548,000	601,600	53,600
Total revenues	26,111,734	27,025,607	27,021,731	(3,876)
Expenditures				
Instruction:				
Basic programs	12,780,913	13,151,266	13,122,877	(28,389)
Added needs	3,484,171	4,066,994	4,065,382	(1,612)
Transfers to other districts	900,000	818,000	817,403	(597)
Supporting services:				
Pupil services	1,638,080	1,739,837	1,694,065	(45,772)
Instructional support	996,451	1,184,404	1,048,126	(136,278)
General administration	404,130	425,787	398,774	(27,013)
School administration	1,736,939	1,572,131	1,572,012	(119)
Business services	640,657	571,933	558,991	(12,942)
Operations and maintenance	1,840,298	1,873,865	1,829,045	(44,820)
Transportation	1,326,648	1,323,609	1,224,188	(99,421)
Technology	399,734	484,469	455,948	(28,521)
Athletic programs	493,595	527,191	512,665	(14,526)
Community Services	54,591	130,266	122,183	(8,083)
Debt service:				
Principal repayment	26,050	26,050	26,049	(1)
Interest and fiscal charges	3,000	1,500	1,344	(156)
Total expenditures	26,725,257	27,897,302	27,449,052	(448,250)
Net changes in fund balance	(613,523)	(871,695)	(427,321)	444,374
Fund balances, beginning of year	2,346,925	2,346,925	2,346,925	-
Fund balances, end of year	\$ 1,733,402	\$ 1,475,230	\$ 1,919,604	\$ 444,374

The accompanying notes are an integral part of these financial statements.

LINDEN COMMUNITY SCHOOLS

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2018

	Private-Purpose Trust Fund	
	Scholarships	Agency Funds
Assets		
Cash and cash equivalents	\$ -	\$ 243,595
Investments	286,723	-
	<u>286,723</u>	<u>-</u>
Total assets	<u>286,723</u>	<u>\$ 243,595</u>
Liabilities		
Due to student groups	-	\$ 243,595
	<u>-</u>	<u>\$ 243,595</u>
Net position		
Restricted - scholarships	<u>\$ 286,723</u>	

The accompanying notes are an integral part of these financial statements.

LINDEN COMMUNITY SCHOOLS

Statement of Changes in Fiduciary Net Position

Private-Purpose Trust Fund

For the Year Ended June 30, 2018

	Private-Purpose Trust Fund
	Scholarships
Additions	
Local revenue - interest / change in investments	\$ 16,138
Deductions	
Scholarships	<u>16,000</u>
Increase in net position	138
Net position, beginning of year	<u>286,585</u>
Net position, end of year	<u><u>\$ 286,723</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

Linden Community Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statements No. 14 and No. 39 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

District-Wide and Fund Financial Statements

The District-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2018.

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

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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

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

Property taxes, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the District receives cash.

The District reports the following major governmental funds:

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

The *sinking fund capital projects fund* accounts for the acquisition of capital assets or construction of major capital projects, which are primarily funded by tax collections from a sinking fund millage.

Additionally, the District reports the following fund types:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of facilities and other capital assets.

The *private-purpose trust fund* accounts for amounts entrusted to the District for scholarship awards and similar trust activities.

The *agency funds* account for assets held for student activity groups and organizations and are custodial in nature.

Deposits and Investments

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

Investments for the District are reported at fair value.

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds”. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Other Assets

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both District-wide and fund financial statements.

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition cost at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land improvements	10-20
Construction and improvements	25-50
Busses and other vehicles	8
Machinery and equipment	5-20

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports a deferred charge on refunding reported in the District-wide statement of net position. A deferred charge on refunding results from the difference in the carry value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District also reports deferred outflows of resources related to net pension and other postemployment benefit liabilities. A portion of these costs represent contributions to the plan subsequent to the plan measurement date. More detailed information can be found in Note 12.

Bonded Construction Costs

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

Sinking Fund

The sinking fund capital project fund records capital project activities funded with a sinking fund millage. For this fund, the District has complied with the applicable provisions of §1212(1) of the Michigan Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

Compensated Absences

It is the District's policy to permit employees to accumulate various earned but unused vacation and sick pay benefits. These are accrued when incurred in the District-wide financial statements. A liability for sick pay amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. There are no contract provisions for the payment of unused vacation.

Benefits are accrued based on various contract stipulations and lengths of service. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments, and other employees who are expected to become eligible in the future to receive such payments upon termination, are included.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District reports deferred inflows of resources related to pension and other postemployment benefit costs. More detailed information can be found in Note 12.

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

Long-term Obligations

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

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

Fund Equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. The District reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education has delegated the authority to assign fund balance to management. Unassigned fund balance is the residual classification for the general fund.

When the District incurs an expenditure for purposes for which various fund balance classification can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

Pensions and Other Postemployment Benefits

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

2. STATE OF MICHIGAN SCHOOL AID

The District reports State of Michigan school aid in the fiscal year in which the District is entitled to the revenue as provided by State of Michigan school aid appropriations acts. State funding represented 85% of the District's general fund revenue during the 2018 fiscal year.

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The general and special revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the general and special revenue funds are adopted on a functional basis.

All annual appropriations lapse at fiscal year end.

Excess of Expenditures Over Appropriations

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2018, the District incurred no expenditures in excess of the amounts appropriated at the legal level of budgetary control, the functional level.

Related Party Transactions

During the year ended June 30, 2018, the District contracted with a certain board member for lawn mowing services. The value of these services was \$6,425.

4. DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown on the Statement of Net Position and Statement of Fiduciary Net Position follows:

Statement of Net Position	
Cash and cash equivalents	\$ 3,236,459
Statement of Fiduciary Net Position	
Cash and cash equivalents	243,595
Investments	<u>286,723</u>
Total	<u><u>\$ 3,766,777</u></u>
Deposits and investments	
Cash on hand	\$ 2,500
Deposits (checking/savings accounts)	1,958,273
Investments	<u>1,806,004</u>
Total	<u><u>\$ 3,766,777</u></u>

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

Statutory Authority

Michigan law authorizes the District to deposit and invest in:

Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.

Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.

Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

Investments

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following investments.

Investment	Carrying Value	Rating
Certificate of deposits/money market funds	\$ 286,723	n/a
Michigan Liquid Asset Fund (MILAF)	<u>1,519,281</u>	S&P - AAAM
	<u>\$ 1,806,004</u>	

Investments in MILAF are carried at amortized cost, rather than fair value.

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. None of the investments had fixed maturities at year end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings on investments are noted above.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$2,391,743 of the District's bank balance of \$2,891,743 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. The District's investments at June 30, 2018 are not subject to custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

5. RECEIVABLES AND PAYABLES

For the year ended June 30, 2018, receivables for the governmental activities are approximately 89 percent due from the State of Michigan, 10 percent due from other governmental units, and 1 percent other receivables. The balance is expected to be collected within the next fiscal year.

Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of June 30, 2018 the District's governmental funds reported \$65,700 of *unearned revenue* from prepayments on fee-based programs and grant funds.

For the year ended June 30, 2018, accounts payable and accrued liabilities for the governmental activities are approximately 69 percent salaries and benefits payable, 27 percent due to vendors and 4 percent accrued interest on long-term debt.

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Construction in progress	\$ 725,588	\$ 1,144,655	\$ -	\$ (725,588)	\$ 1,144,655
Capital assets, being depreciated:					
Land improvements	6,683,378	7,287	(83,655)	-	6,607,010
Construction	45,693,139	37,851	(6,000)	-	45,724,990
Buses and other vehicles	44,373	23,412	-	-	67,785
Machinery and equipment	1,032,778	242,551	(27,391)	725,588	1,973,526
	<u>53,453,668</u>	<u>311,101</u>	<u>(117,046)</u>	<u>725,588</u>	<u>54,373,311</u>
Less accumulated depreciation for:					
Land improvements	(3,372,435)	(318,261)	83,655	-	(3,607,041)
Construction	(16,311,175)	(964,010)	6,000	-	(17,269,185)
Buses and other vehicles	(40,231)	(4,297)	-	-	(44,528)
Machinery and equipment	(871,465)	(76,242)	27,391	-	(920,316)
	<u>(20,595,306)</u>	<u>(1,362,810)</u>	<u>117,046</u>	<u>-</u>	<u>(21,841,070)</u>
Total capital assets					
being depreciated, net	<u>32,858,362</u>	<u>(1,051,709)</u>	<u>-</u>	<u>725,588</u>	<u>32,532,241</u>
Governmental activities					
capital assets, net	<u>\$ 33,583,950</u>	<u>\$ 92,946</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,676,896</u>

Depreciation expense of \$1,362,810 was charged to "Unallocated Depreciation," and not allocated to other functions.

7. INTERNAL BALANCES AND TRANSFERS

The District, from time to time, will report interfund balances between some of its funds. These interfund balances result primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the year ended June 30, 2018, the District recorded no interfund balances.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2018, the District recorded no transfers.

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

8. LONG-TERM DEBT

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2018:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 20,185,000	\$ -	\$ (1,585,000)	\$ 18,600,000	\$ 1,640,000
Bond premiums/discounts	1,792,616	-	(173,322)	1,619,294	173,322
Installment purchases	52,098	-	(26,049)	26,049	26,049
Compensated absences	233,164	-	(16,217)	216,947	-
Totals	\$ 22,262,878	\$ -	\$ (1,800,588)	\$ 20,462,290	\$ 1,839,371

Installment purchases and compensated absences are typically liquidated by the general fund.

General obligation bonds

2012 Refunding Bonds, due in annual installments of \$1,440,000 to \$2,250,000 through 2029; interest at 3.00% to 4.00%

\$ 5,900,000

2015 Refunding Bonds, due in annual installments of \$100,000 to \$1,620,000 through 2027; interest at 2.00% to 5.00%

12,700,000

Total

\$ 18,600,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 1,640,000	\$ 782,888	\$ 2,422,888
2020	1,495,000	717,288	2,212,288
2021	1,515,000	658,488	2,173,488
2022	1,515,000	585,613	2,100,613
2023	1,520,000	512,488	2,032,488
2024-2028	8,665,000	1,443,640	10,108,640
2029	2,250,000	73,126	2,323,126
Totals	\$ 18,600,000	\$ 4,773,531	\$ 23,373,531

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

Annual debt service requirements to maturity for installment purchases are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	<u>\$ 26,049</u>	<u>\$ 1,344</u>	<u>\$ 27,393</u>

In a previous year, various office equipment was acquired with an installment purchase agreement authorized under Public Act 99. Repayment is due in an annual installment of \$27,393 including principal and interest. Interest is charged at a rate of 2.58%

Compensated absences are generally liquidated by the general fund.

9. SHORT-TERM DEBT

During the year, the District financed certain of its operations through the issuance of property tax and State Aid anticipation notes. These notes were issued for terms of less than one year, and accordingly are recorded as liabilities of the respective funds from which they were issued.

Changes in short-term state aid notes for the year ended June 30, 2018, were as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
State aid note	<u>\$ 1,994,852</u>	<u>\$ 2,750,000</u>	<u>\$ (2,502,507)</u>	<u>\$ 2,242,345</u>

10. RISK MANAGEMENT

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

The 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 District must reimburse the Employment Commission for all benefits paid out. No material unemployment expense is recorded in the Statement of Activities and no provision has been made for possible future claims.

The District is self-insured for certain dental and vision claims. An independent third-party administers the District's self-insured dental/vision program. The District does not estimate any incurred but not reported claims to be material to these financial statements.

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

11. PROPERTY TAXES

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of July 1 and December 1, and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14, and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within 60 days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.

Tax Abatements

The District is subject to tax abatement agreements entered into by other governmental entities within its boundaries which reduce the District's tax revenues. Agreements affecting the District as of June 30, 2018 are as follows:

	Industrial Facilities Tax MCL 207.551, et seq	Payment in Lieu of Taxes MCL 211.7d
Taxable Value:		
City of Linden	-	2,829,623
Tyrone Township	2,363,100	-
	<u>2,363,100</u>	<u>-</u>
Totals	<u>\$ 2,363,100</u>	<u>\$ 2,829,623</u>
Taxes Reduced:		
Operating **	42,536	50,933
Debt	8,743	10,470
Sinking Fund	3,055	3,658
	<u>54,334</u>	<u>65,061</u>
Totals	<u>\$ 54,334</u>	<u>\$ 65,061</u>

** Operating taxes lost are reimbursed to the District by the State of Michigan.

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS

Plan Description

The Michigan Public School Employees' Retirement System (the "System" or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "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 at the ORS website at www.michigan.gov/orsschools.

Pension 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% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

Other Postemployment 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 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 22-year period for the 2017 fiscal year.

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

The table below summarizes pension contribution rates in effect for fiscal year 2018:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	17.89% - 19.03%
Member Investment Plan (MIP)	3.00% - 7.00%	17.89% - 19.03%
Pension Plus	3.00% - 6.40%	16.61% - 18.40%
Pension Plus 2	6.20%	19.74%
Defined Contribution	0.00%	13.54% - 15.27%

Required contributions to the pension plan from the District were \$4,291,181 for the year ended June 30, 2018.

The table below summarizes OPEB contribution rates in effect for fiscal year 2018:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	5.91% - 7.67%
Personal Healthcare Fund (PHF)	0.00%	5.69% - 7.42%

Required contributions to the OPEB plan from the District were \$963,467 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$40,376,834 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 District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was 0.15581%, which was a decrease of 0.00066% from its proportion measured as of September 30, 2016.

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

For the year ended June 30, 2018, the District recognized pension expense of \$4,537,433. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ 350,902	\$ 198,121	\$ 152,781
Changes in assumptions	4,423,603	-	4,423,603
Net difference between projected and actual earnings on pension plan investments	-	1,930,278	(1,930,278)
Changes in proportion and differences between employer contributions and proportionate share of contributions	756,869	144,131	612,738
	<u>5,531,374</u>	<u>2,272,530</u>	<u>3,258,844</u>
District contributions subsequent to the measurement date	3,971,726	-	3,971,726
	<u>3,971,726</u>	<u>-</u>	<u>3,971,726</u>
Total	<u>\$ 9,503,100</u>	<u>\$ 2,272,530</u>	<u>\$ 7,230,570</u>

\$3,971,726 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:

Year Ended June 30,	Amount
2019	\$ 1,087,971
2020	1,665,328
2021	606,259
2022	<u>(100,714)</u>
Total	<u>\$ 3,258,844</u>

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

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

At June 30, 2018, the District reported a liability of \$13,780,284 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was 0.15561%.

For the year ended June 30, 2018, the District recognized OPEB expense of \$922,403. At June 30, 2018, the 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	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 146,719	\$ (146,719)
Net difference between projected and actual earnings on OPEB plan investments	-	319,155	(319,155)
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,012	-	3,012
	<u>3,012</u>	<u>465,874</u>	<u>(462,862)</u>
District contributions subsequent to the measurement date	864,271	-	864,271
	<u>864,271</u>	<u>-</u>	<u>864,271</u>
Total	<u>\$ 867,283</u>	<u>\$ 465,874</u>	<u>\$ 401,409</u>

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

\$864,271 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 pension expense as follows:

Year Ended June 30,	Amount
2019	\$ (111,907)
2020	(111,907)
2021	(111,907)
2022	(111,907)
2023	(15,234)
Total	\$ (462,862)

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. The total pension and OPEB liabilities in the September 30, 2016 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

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%
OPEB plans	7.5%
Projected salary increases	3.5% - 12.3%, including wage inflation at 3.5%
Cost of living adjustments	3% annual non-compounded for MIP members
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 OPEB 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

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

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 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. The recognition period for pension liabilities is 4.5188 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.4744 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on 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 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	Expected Money-Weighted Rate
Domestic equity pools	28.00%	5.60%	1.56%
Alternative investment pools	18.00%	8.70%	1.57%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	-0.10%	-0.01%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.00%	0.78%
Short-term investment pools	2.00%	-0.90%	-0.02%
	<u>100.00%</u>		<u>5.45%</u>
Inflation			<u>2.05%</u>
Investment rate of return			<u>7.50%</u>

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

Discount Rate

A discount rate of 7.5% was used to measure the total pension and OPEB liabilities (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 and OPEB 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 and 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 pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

Sensitivity of District's Proportionate Share of the Net Pension Liability to Changes in the Discount

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$ 52,597,585	\$ 40,376,834	\$ 30,087,740

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

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net OPEB liability	\$ 16,140,695	\$ 13,780,284	\$ 11,777,033

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

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

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

	1% Decrease (6.5%)	Current Healthcare Cost Trend Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net OPEB liability	\$ 11,670,048	\$ 13,780,284	\$ 16,176,309

The net pension and other postemployment benefits liabilities are typically liquidated by the general fund.

Pension and OPEB Plans Fiduciary Net Position

Detailed information about the pension and OPEB plan's fiduciary net position is available in the separately issued MPERS financial statements available on the State of Michigan Office of Retirement Services website at www.michigan.gov/orsschools.

Payable to the Pension Plan

At June 30, 2018, the District reported a payable of \$564,127 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2018.

Payable to the OPEB Plan

At June 30, 2018, the District reported a payable of \$113,674 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2018.

13. CONSTRUCTION COMMITMENTS

The District has active construction projects for various stadium improvements at Linden High School. As of June 30, 2018 the District had outstanding commitments with contractors on these projects totaling \$182,045. The projects are being financed with sinking fund millage collections.

LINDEN COMMUNITY SCHOOLS

Notes to Financial Statements

14. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2018, was as follows:

	Governmental Activities
Capital assets:	
Capital assets not being depreciated	\$ 1,144,655
Capital assets being depreciated, net	<u>32,532,241</u>
	<u>33,676,896</u>
Related debt:	
Bonds payable	18,600,000
Premiums/discounts on bonds payable, net	1,619,294
Installment purchases	26,049
Deferred loss on advance bond refundings, net	(892,198)
Unexpended bond proceeds	<u>(93,620)</u>
	<u>19,259,525</u>
Net Investment in capital assets	<u><u>\$ 14,417,371</u></u>

15. RESTATEMENT

The District adopted the provisions of Governmental Accounting Standard's Board (GASB) Statement No. 75 *Accounting and Financial Reporting of Postemployment Benefits Other Than Pensions* during the current year.

The implementation of this new standard includes the recognition of the total OPEB liability at the beginning of the year and the elimination of the net other postemployment benefits obligation recorded under the standards previously in effect. The net adjustment to the beginning net position was a decrease of \$13,425,069.

16. SUBSEQUENT EVENTS

State Aid Anticipation Notes

Subsequent to year end, the District issued \$2,500,000 of State Aid anticipation notes through the Michigan Finance Authority's State Aid Note Program. The notes are due in August 2019 and bear interest at effective rates ranging from 1.75% to 2.50%.

Retirement Plan Discount Rate

In 2018, the Michigan Public School Employees' Retirement System approved a decrease in the assumed investment rate of return (discount rate) from 7.50% to 7.05% based on its new Dedicated Investment Gains policy adopted in mid 2017. The actuarial computed employer contributions and the net pension liability are expected to increase as a result of lowering the assumed investment rate of return.

REQUIRED SUPPLEMENTARY INFORMATION

LINDEN COMMUNITY SCHOOLS

Required Supplementary Information MPSERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,			
	2015	2016	2017	2018
District's proportion of the net pension liability	\$ 32,847,342	\$ 37,988,571	\$ 39,036,755	\$ 40,376,834
District's proportionate share of the net pension liability	0.14912645%	0.15553134%	0.15646507%	0.15580938%
District's covered payroll	\$ 12,761,448	\$ 13,109,717	\$ 13,214,827	\$ 12,964,895
District's proportionate share of the net pension liability as a percentage of its covered payroll	257.40%	289.77%	295.40%	311.43%
Plan fiduciary net position as a percentage of the total pension liability	66.20%	63.17%	63.27%	64.21%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Schedule of the District's Pension Contributions

	Year Ended June 30,			
	2015	2016	2017	2018
Statutorily required contribution	\$ 3,964,219	\$ 3,560,170	\$ 3,700,208	\$ 4,291,181
Contributions in relation to the statutorily required contribution	<u>(3,964,219)</u>	<u>(3,560,170)</u>	<u>(3,700,208)</u>	<u>(4,291,181)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 13,137,256	\$ 13,178,791	\$ 12,983,535	\$ 13,193,810
Contributions as a percentage of covered payroll	30.18%	27.01%	28.50%	32.52%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

LINDEN COMMUNITY SCHOOLS

Required Supplementary Information MPERS Cost-Sharing Multiple-Employer Plan

Schedule of the District's Proportionate Share of the Net Other Postemployment Benefit Liability

	Year Ended June 30, 2018
District's proportion of the net OPEB liability	\$ 13,780,284
District's proportionate share of the net OPEB liability	0.15561322%
District's covered payroll	\$ 12,964,895
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	106.29%
Plan fiduciary net position as a percentage of the total OPEB liability	36.39%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Schedule of the District's Other Postemployment Benefit Contributions

	Year Ended June 30, 2018
Statutorily required contribution	\$ 963,467
Contributions in relation to the statutorily required contribution	<u>(963,467)</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered payroll	\$ 13,193,810
Contributions as a percentage of covered payroll	7.30%

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**COMBINING FUND FINANCIAL
STATEMENTS AND SCHEDULES**

LINDEN COMMUNITY SCHOOLS

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2018

	Special Revenue		Debt Service		Capital Projects	Total
	Food Service	Community Service	2012 Debt Service	2015 Debt Service	2003 Capital Projects	
Assets						
Cash and cash equivalents	\$ 277,157	\$ 125,829	\$ 209,334	\$ 97,599	\$ 93,620	\$ 803,539
Accounts receivable	11,177	919	-	-	-	12,096
Due from other governments	5,309	48,904	-	-	-	54,213
Inventory	4,214	-	-	-	-	4,214
Total assets	\$ 297,857	\$ 175,652	\$ 209,334	\$ 97,599	\$ 93,620	\$ 874,062
Liabilities						
Accounts payable	\$ -	\$ 619	\$ -	\$ -	\$ -	\$ 619
Salaries and benefits payable	12,781	11,630	-	-	-	24,411
Unearned revenue	21,828	18,798	-	-	-	40,626
Total liabilities	34,609	31,047	-	-	-	65,656
Fund balances						
Nonspendable - Inventory	4,214	-	-	-	-	4,214
Restricted	259,034	144,605	209,334	97,599	93,620	804,192
Total fund balances	263,248	144,605	209,334	97,599	93,620	808,406
Total liabilities and fund balances	\$ 297,857	\$ 175,652	\$ 209,334	\$ 97,599	\$ 93,620	\$ 874,062

LINDEN COMMUNITY SCHOOLS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2018

	Special Revenue		Debt Service		Capital Projects	Total
	Food Service	Community Service	2012 Debt Service	2015 Debt Service	2003 Capital Projects	
Revenues						
Local sources	\$ 494,387	\$ 388,998	\$ 1,497,561	\$ 799,849	\$ 184	\$ 3,180,979
State sources	57,330	258,509	22,624	12,097	-	350,560
Federal sources	424,405	-	-	-	-	424,405
Total revenues	976,122	647,507	1,520,185	811,946	184	3,955,944
Expenditures						
Food service activities	926,882	-	-	-	-	926,882
Community services	-	637,911	-	-	-	637,911
Debt service:						
Principal repayment	-	-	1,385,000	200,000	-	1,585,000
Interest	-	-	255,572	591,099	-	846,671
Capital outlay	7,146	-	-	-	7,980	15,126
Total expenditures	934,028	637,911	1,640,572	791,099	7,980	4,011,590
Net change in fund balances	42,094	9,596	(120,387)	20,847	(7,796)	(55,646)
Fund balances, beginning of year	221,154	135,009	329,721	76,752	101,416	864,052
Fund balances, end of year	\$ 263,248	\$ 144,605	\$ 209,334	\$ 97,599	\$ 93,620	\$ 808,406

SINGLE AUDIT ACT COMPLIANCE

INDEPENDENT AUDITORS' REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE

September 28, 2018

To the Board of Education
Linden Community Schools
Linden, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Linden Community Schools* (the "District") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated September 28, 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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.



LINDEN COMMUNITY SCHOOLS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2018

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number
U.S. Department of Agriculture			
Child Nutrition Cluster:			
Non-cash assistance:			
Entitlement commodities	10.555	MDE	n/a
Cash assistance:			
2016-2017 School Breakfast	10.553	MDE	171970
2017-2018 School Breakfast	10.553	MDE	181970
2016-2017 National School Lunch - Section 11	10.555	MDE	171960
2017-2018 National School Lunch - Section 11	10.555	MDE	181960
Total U.S. Department of Agriculture			
U.S. Department of Education			
Title I Cluster:			
2016-2017 Title I, Part A	84.010	MDE	171530-1617
2017-2018 Title I, Part A	84.010	MDE	181530-1718
2016-2017 Title II, Part A	84.367	MDE	170520-1617
2017-2018 Title II, Part A	84.367	MDE	180520-1718
Special Education Cluster:			
2016-2017 IDEA Flowthrough	84.027	GISD	170450-1617
2017-2018 IDEA Flowthrough	84.027	GISD	180450-1718
Total U.S. Department of Education			
U.S. Department of Health and Human Services			
Medicaid Cluster:			
2016-2017 Medicaid Outreach	93.778	GISD	n/a
2017-2018 Medicaid Outreach	93.778	GISD	n/a
Total Expenditures of Federal Awards			

See notes to schedule of expenditures of federal awards.

Approved Grant Award Amount	Accrued Unearned Revenue June 30, 2017	Current Year Cash Received	Expenditures Memo Only Prior Year(s)	Expenditures Year Ended June 30, 2018	Accrued Unearned Revenue June 30, 2018
\$ 46,589	\$ -	\$ 46,589		\$ 46,589	\$ -
53,547	-	5,092	48,455	5,092	-
55,957	-	55,957	-	55,957	-
281,444	-	29,043	252,401	29,043	-
287,724	-	287,724	-	287,724	-
	-	377,816		377,816	-
	-	424,405		424,405	-
417,228	179,624	197,163	306,926	17,539	-
440,206	-	127,833	-	339,261	211,428
	179,624	324,996		356,800	211,428
112,458	14,202	77,014	14,202	62,812	-
124,874	-	42,154	-	102,639	60,485
	14,202	119,168		165,451	60,485
771,876	291,776	291,776	771,876	-	-
772,514	-	446,693	-	772,514	325,821
	291,776	738,469		772,514	325,821
	485,602	1,182,633		1,294,765	597,734
2,722	2,722	2,722	2,722	-	-
1,522	-	1,522	-	1,522	-
	2,722	4,244		1,522	-
\$ 488,324	\$ 1,611,282	\$ 1,611,282		\$ 1,720,692	\$ 597,734

LINDEN COMMUNITY SCHOOLS

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Linden Community Schools (the "District") 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 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 the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

The Schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this Schedule.

For purposes of charging indirect costs to federal awards, the District has not elected to use the 10 percent de minimis cost rate as permitted by § 200.414 of the Uniform Guidance.

3. PASS-THROUGH AGENCIES

The District receives certain federal grant as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
GISD	Genesee Intermediate School District
MDE	Michigan Department of Education



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*

September 28, 2018

To the Board of Education
Linden Community Schools
Linden, 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 the Linden Community Schools (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 28, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's 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 the District's 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rehmann Loban LLC

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

September 28, 2018

To the Board of Education
Linden Community Schools
Linden, Michigan

Report on Compliance for Each Major Federal Program

We have audited the compliance of the Linden Community Schools (the "District") with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal program is identified in the summary of auditors' 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.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's 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 the District's 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 the District's compliance.

Opinion on the Major Federal Program

In our opinion, the District 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 the District 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 the District's 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 the District's 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.

Purpose of this Report

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.

The image shows a handwritten signature in black ink that reads "Lehmann Lobman LLC". The signature is written in a cursive, flowing style.

LINDEN COMMUNITY 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: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? _____ 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? _____ 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 Circular A-133, Section 510(a)? _____ yes X no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
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84.027	Special Education Cluster (IDEA)
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Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X yes _____ no

LINDEN COMMUNITY SCHOOLS

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

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

LINDEN COMMUNITY SCHOOLS

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2018

No matters were reported.

