

**COLUMBIA SCHOOL DISTRICT  
BROOKLYN, MICHIGAN**

**ANNUAL FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2018**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Columbia School District  
Brooklyn, 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 Columbia School District, Brooklyn, Michigan (the "School District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

### ***Opinions***

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

### ***Emphasis of Matter – Change in Accounting Principle***

As discussed in Note 13 to the financial statements, the School District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, and schedules of proportionate share of net pension and OPEB liabilities and contributions, 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 School District's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual 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 combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2018, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the typed name of the firm.

Gabridge & Company, PLC  
Grand Rapids, MI  
October 29, 2018

## **Management's Discussion and Analysis**

## Columbia School District

### Management's Discussion and Analysis

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This section of Columbia School District's (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2017. It is to be read in conjunction with the School District's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and is intended to provide the financial results for the fiscal year ending June 30, 2017.

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

#### ***Financial Highlights***

- For fiscal year ended 2018, the Board of Education originally adopted a general fund budget with a projected decrease in fund balance of \$1,505. The actual results of operations in the general fund showed that actual expenditures were \$249,570 less than the final general fund budget and that actual revenues were approximately \$66,962 more than the final general fund budget.
- At June 30, 2018 the total net position had a deficit balance of \$16,922,839 of which \$22,352,140 was deficit unrestricted net position.
- The governmental activities total net position increased \$563,742 from \$(17,486,581) as of June 30, 2017 to \$(16,922,839) as of June 30, 2018. Refer to the district-wide financial statements – change in net position for fiscal year ended June 30, 2018 and June 30, 2017 for explanations regarding the net position increase.
- At June 30, 2018, the total fund balance for the general fund was \$1,073,435.

#### ***Overview of the Financial Statements***

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the School District:

- The first two statements, the statement of net position and the statement of activities, are *district-wide financial statements* that provide both short-term and long-term information about the School District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the School District, reporting the School District's operations in more detail than the district-wide statements.

## Columbia School District

### Management's Discussion and Analysis

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- *Governmental funds statements* tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
- *Fiduciary funds statements* provide information about the financial relationships in which the School District acts solely as a trustee or agent for the benefit of others.

The basic financial statements also include the notes to the financial statements that explain the information in the basic financial statements and provide more detailed data. Supplementary information follows and includes combining and individual fund statements as well as a budgetary comparison schedule for the general fund.

#### ***District-wide Financial Statements***

The district-wide financial statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School District's assets, deferred inflows and outflows, and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the School District's net position and how they have changed. Net position – the difference between the School District's assets, deferred outflows and inflows, and liabilities - is one way to measure the School District's financial health or position.

Over time, increases or decreases in the School District's net position are an indicator of whether its financial position is improving or deteriorating.

To assess the School District's overall health, one should consider additional non-financial factors such as changes in the School District's property tax-base and the condition of school buildings and other facilities.

In the district-wide financial statements, the School District's activities are presented as governmental activities. *Governmental activities* include the School District's basic services, such as regular and special education, instructional support, transportation, administration, community services, food service, and athletics. State aid and property taxes finance most of these activities.

#### ***Financial Analysis of the School District as a Whole***

The following is a comparative highlight of the current and prior year financial activities from the district-wide financial statements:

## Columbia School District

### Management's Discussion and Analysis

<b>ASSETS</b>	<b>2018</b>	<b>2017</b>
<i>Current Assets</i>		
Cash and Investments	\$ 1,338,006	\$ 1,359,965
Receivables	306,291	202,037
Due from Other Governments	1,480,231	1,385,066
Prepaid Items and Inventories	7,651	16,491
<b>Total Current Assets</b>	<b>3,132,179</b>	<b>2,963,559</b>
<i>Noncurrent Assets</i>		
Capital Assets, Net	33,875,884	34,918,066
<b>Total Assets</b>	<b>37,008,063</b>	<b>37,881,625</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension	6,058,268	3,701,110
OPEB	392,654	387,071
<b>Total Deferred Outflows of Resources</b>	<b>6,450,922</b>	<b>4,088,181</b>
<b>LIABILITIES</b>		
<i>Current Liabilities</i>		
Accounts Payable and Accrued Expenses	1,563,023	1,397,129
Unearned Revenue	-	26,387
Accrued Interest	213,635	218,249
Current Portion of Long-term Debt	720,000	690,000
<b>Total Current Liabilities</b>	<b>2,496,658</b>	<b>2,331,765</b>
<i>Noncurrent Liabilities</i>		
Long-term Debt	28,222,304	28,972,596
Compensated Absences	146,538	153,245
Net Pension Liability	20,959,742	19,692,402
Net OPEB Liability	7,172,218	7,565,101
<b>Total Liabilities</b>	<b>58,997,460</b>	<b>58,715,109</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension	1,141,891	741,278
OPEB	242,473	-
<b>Total Deferred Inflows of Resources</b>	<b>1,384,364</b>	<b>741,278</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	4,933,580	5,255,470
Restricted	495,721	618,597
Unrestricted	(22,352,140)	(23,360,648)
<b>Total Net Position</b>	<b>\$ (16,922,839)</b>	<b>\$ (17,486,581)</b>

Net position increased from a deficit of \$(17,486,581) as of June 30, 2017 to a deficit of \$(16,922,839) as of June 30, 2018. The most significant reason for this increase was the School District's increase operating grants and contributions of \$375,712 from the prior year.

## Columbia School District

### Management's Discussion and Analysis

The results of the fiscal year's operations for the School District as a whole are presented in the statement of activities, which shows the change in total net position for the year.

The statement of activities presents the following changes in net position from operating results:

	<b>2018</b>	<b>2017</b>
<b>Revenues</b>		
<b>Program Revenues</b>		
Charges for Services	\$ 522,801	\$ 564,142
Operating Grants and Contributions	2,843,856	2,468,144
<b>Total Program Revenues</b>	3,366,657	3,032,286
<b>General Revenues</b>		
Local Sources	6,506,360	6,416,360
Unrestricted State Sources	6,618,519	6,417,108
Investment Earnings	3,426	5,352
Other Sources	573,430	536,891
<b>Total General Revenues</b>	13,701,735	13,375,711
<b>Total Revenues</b>	17,068,392	16,407,997
<b>Expenses</b>		
Instruction	9,054,559	10,195,456
Support Services	5,226,822	5,222,091
Community Services	168,350	205,526
Food Services	597,329	547,044
Interest on Long-term Debt	1,356,391	1,308,551
Unallocated Depreciation	101,199	107,883
<b>Total Expenses</b>	16,504,650	17,586,551
<b>Change in Net Position</b>	563,742	(1,178,554)
<i>Net Position at Beginning of Period</i>	(17,486,581)	(16,308,027)
<b>Net Position at End of Period</b>	\$ (16,922,839)	\$ (17,486,581)

Revenues increased for the School District, from \$16,407,997 for the fiscal year ended 2017 to \$17,068,392 for the fiscal year ended 2018. The most significant item that led to an increase in revenues was increase in operating grants and contributions totaling \$2,843,856, due to a minor increase in per pupil funding and a higher pupil count than in the prior year.

#### ***Fund Financial Statements***

The fund financial statements provide more detailed information about the School District's funds, focusing on its most significant or "major" funds - not the School District as a whole. Funds are accounting devices the School District uses to keep track of specific sources of funding and spending on particular programs.

## Columbia School District

### Management's Discussion and Analysis

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The School District utilizes two kinds of funds:

- *Governmental funds*: Most of the School District's basic services are included in governmental funds, which generally focus on: 1) how cash and other financial assets that can readily be converted to cash flow in and out and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Since the district-wide financial statements and the fund financial statements use different methods of accounting to report the School District's financial condition, a reconciliation is included in the financial statements showing the differences between the two types of statements.
- *Fiduciary funds*: The School District is the trustee, or fiduciary, for assets that belong to others, such as scholarship funds and student activities funds. The School District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The School District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

#### ***Financial Analysis of the School District's Funds***

The School District uses funds to record and analyze financial information. The School District has two major funds, its general fund and debt service fund.

The ***general fund*** is the School District's primary operating fund. The general fund had revenues of \$14,455,185, expenditures of \$14,347,616, and net other financing sources and uses of \$44,420. The School District ended the year with a \$151,989 increase in fund balance for a total fund balance of \$1,073,435 as of June 30, 2018, up from \$921,446 as of June 30, 2017.

The ***2014 debt service fund*** had revenues of \$1,978,347 and expenditures of \$1,975,234. The School District ended the year with a \$3,113 increase in fund balance for a total fund balance of \$213,281 as of June 30, 2018, up from \$210,168 as of June 30, 2017.

The nonmajor governmental funds had a decrease in fund balance for the year of \$125,989 for total nonmajor governmental fund balances of \$282,440 as of June 30, 2018, down from \$408,429 as of June 30, 2017.

#### ***General Fund Budgetary Highlights***

During the year the School District revised its budget to attempt to match changes in the school funding environment and current needs of students and faculty. State law requires that budgets be amended during the year so actual expenditures do not exceed appropriations. The initial budget

# Columbia School District

## Management's Discussion and Analysis

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for the year ended June 30, 2018, was adopted by the Board of Education on June 12, 2017, with the final amendments made on June 11, 2018.

*Original budget compared to final budget.* The most significant change between the original budget and final budget was for business services from \$225,454 to \$630,314.

*Final budget compared to actual results.* The School District had the following expenditures in excess of appropriations during the year:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>General Fund</b>			
General Administration	\$ 428,840	\$ 445,293	\$ (16,453)
School Administration	808,912	821,260	(12,348)
Operation and Maintenance	1,512,390	1,527,379	(14,989)
Capital Outlay	19,967	41,187	(21,220)

### *Capital Asset and Debt Administration*

#### *Capital Assets*

At June 30, 2018, the School District had \$33,875,884 invested in capital assets. This included a net decrease during the past fiscal year of \$1,042,182 consisting of depreciation charges of \$1,104,757 and capital asset additions of \$62,575.

The School District's current year additions totaled \$62,575 within furniture and equipment.

The following table represents the School District's investment in capital assets:

Land	\$ 23,700
Buildings and Improvements	43,415,131
Buses and Other Vehicles	795,212
Furniture and Equipment	1,009,970
Subtotal	<u>45,244,013</u>
Accumulated Depreciation	<u>11,368,129</u>
<i>Net Capital Assets</i>	<u>\$ 33,875,884</u>

More detailed information about the School District's capital assets can be found in the notes to the financial statements section of this document.

## Columbia School District

### Management's Discussion and Analysis

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#### ***Long-term Debt***

At year end, the School District had total long-term debt of \$28,942,304.

- The School District continued to pay down its debt, retiring \$690,000 of outstanding bonds during the year.
- The School District's other long-term obligations are for accumulated sick/vacation leave in the amount of \$146,538, net OPEB liability in the amount of \$7,172,218, and net pension liability in the amount of \$20,959,742.

The State limits the amount of general obligation debt that schools can issue. The School District is under the State limit as of June 30, 2018.

More detailed information about the School District's long-term debt can be found in the notes to the financial statements section of this document.

#### ***Economic Factors and Next Year's Budget and Rates***

Our elected officials and administration considered many factors when setting the School District's operating budgets. Two of the most important factors affecting the budget are the economic condition of the State of Michigan and our student count. State law requires the District to amend the budget if actual District resources are not sufficient to fund original appropriations. Since the District's revenue is primarily dependent on State Aid from the School Aid Fund and local property taxes, the actual revenue received by the District depends on the health of the District's tax base and the State's ability to collect revenue to fund its appropriations to school districts. Under State law, the School District cannot levy additional property tax revenue for general operations. The States foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil.

In the recent past, the State of Michigan has issued several executive orders prorating and reducing, mid-year, the State's funding commitment to the District. The School District's recent budgetary history reflects how it has made every effort over the past decade to prepare for and excel programmatically while meeting the challenges of the State's struggling economy. It is the intention of the School District to provide premium programming within a balanced operating budget environment.

## **Columbia School District**

### Management's Discussion and Analysis

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#### ***Requests for Information***

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact:

Dr. Pamela Campbell, Superintendent - (517) 592-6641  
Columbia School District  
11775 Hewitt Road  
Brooklyn, MI 493230

## **Basic Financial Statements**

**Columbia School District  
Statement of Net Position  
June 30, 2018**

**ASSETS**

*Current Assets*

Cash and Investments	\$	1,338,006
Accounts Receivable		306,291
Due from Other Governmental Units		1,480,231
Inventories		7,651
<b>Total Current Assets</b>		<b>3,132,179</b>

*Noncurrent Assets*

Capital Assets being Depreciated, Net		23,700
Capital Assets not being Depreciated		33,852,184
<b>Total Assets</b>		<b>37,008,063</b>

**DEFERRED OUTFLOWS OF RESOURCES**

Pension		6,058,268
OPEB		392,654
<b>Total Deferred Outflows of Resources</b>		<b>6,450,922</b>

**LIABILITIES**

*Current Liabilities*

Accounts Payable		97,641
Salaries Payable		791,624
Accrued Expenditures		673,758
Accrued Interest Payable		213,635
Current Portion of Long-term Debt		720,000
<b>Total Current Liabilities</b>		<b>2,496,658</b>

*Noncurrent Liabilities*

Long-term Debt		28,222,304
Compensated Absences		146,538
Net Pension Liability		20,959,742
Net OPEB Liability		7,172,218
<b>Total Liabilities</b>		<b>58,997,460</b>

**DEFERRED INFLOWS OF RESOURCES**

Pension		1,141,891
OPEB		242,473
<b>Total Deferred Inflows of Resources</b>		<b>1,384,364</b>

**NET POSITION**

Net Investment in Capital Assets		4,933,580
<i>Restricted for:</i>		
Food Services		186,760
Debt Service		213,281
Capital Projects		95,680
<i>Unrestricted</i>		(22,352,140)
<b>Total Net Position</b>	<b>\$</b>	<b>(16,922,839)</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**Columbia School District  
Statement of Activities  
For the Year Ended June 30, 2018**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense)</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Revenue</b>
					<b>Total</b>
Instruction	\$ 9,054,559	\$ 52,248	\$ 2,352,000	\$ --	\$ (6,650,311)
Support Services	5,226,822	125,698	68,829	--	(5,032,295)
Community Services	168,350	133,295	--	--	(35,055)
Food Service Activities	597,329	211,560	423,027	--	37,258
Interest on Long-term Debt	1,356,391	--	--	--	(1,356,391)
Unallocated Depreciation	101,199	--	--	--	(101,199)
<b>Total</b>	<b>\$ 16,504,650</b>	<b>\$ 522,801</b>	<b>\$ 2,843,856</b>	<b>\$ --</b>	<b>\$ (13,137,993)</b>

**General Purpose Revenues:**

Property Taxes	6,506,360
Investment Earnings	3,426
Unrestricted State Sources	6,618,519
Other Sources	573,430
<b>Total General Revenues</b>	<b>13,701,735</b>
<b>Change in Net Position</b>	<b>563,742</b>
<i>Net Position at Beginning of Period (Restated, Note 13)</i>	<i>(17,486,581)</i>
<b>Net Position at End of Period</b>	<b>\$ (16,922,839)</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**Columbia School District  
Balance Sheet  
Governmental Funds  
June 30, 2018**

	<u>Debt Service</u>			
	<u>General</u>	<u>2014 Debt Service Fund</u>	<u>Other Governmental Funds</u>	
<b>ASSETS</b>				
Cash and Investments	\$ 800,787	\$ 213,281	\$ 323,938	\$ 1,338,006
Accounts Receivable	306,291	--	--	306,291
Due from Other Governmental Units	1,476,184	--	4,047	1,480,231
Inventories	--	--	7,651	7,651
<i><b>Total Assets</b></i>	<u><b>\$ 2,583,262</b></u>	<u><b>\$ 213,281</b></u>	<u><b>\$ 335,636</b></u>	<u><b>\$ 3,132,179</b></u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 52,788	\$ --	\$ 44,853	\$ 97,641
Salaries Payable	791,624	--	--	791,624
Accrued Expenditures	665,415	--	8,343	673,758
<i><b>Total Liabilities</b></i>	<u><b>1,509,827</b></u>	<u><b>--</b></u>	<u><b>53,196</b></u>	<u><b>1,563,023</b></u>
<b>FUND BALANCE</b>				
Nonspendable	--	--	7,651	7,651
Restricted	--	213,281	274,789	488,070
Unassigned	1,073,435	--	--	1,073,435
<i><b>Total Fund Balance</b></i>	<u><b>1,073,435</b></u>	<u><b>213,281</b></u>	<u><b>282,440</b></u>	<u><b>1,569,156</b></u>
<i><b>Total Liabilities and Fund Balance</b></i>	<u><b>\$ 2,583,262</b></u>	<u><b>\$ 213,281</b></u>	<u><b>\$ 335,636</b></u>	<u><b>\$ 3,132,179</b></u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**Columbia School District**  
**Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position**  
**June 30, 2018**

Total Fund Balance - Governmental Funds	\$	1,569,156
Capital assets of \$45,244,013, net of accumulated depreciation of \$11,368,129, are not financial resources and, accordingly, are not reported in the funds.		33,875,884
Long-term liabilities are not due and payable in the current period, and therefore are not reported in funds.		(28,942,304)
Accrued interest is recorded in the Statement of Activities when incurred; it is not reported in governmental funds until paid.		(213,635)
Compensated absences is recorded in the Statement of Activities when incurred; it is not reported in governmental funds until paid.		(146,538)
The net pension liability and related deferred inflows and outflows are not due and payable in the current period and, therefore, are not reported in the funds.		(16,043,365)
The net OPEB liability and related deferred inflows and outflows are not due and payable in the current period and, therefore, are not reported in the funds.		(7,022,037)
<b>Total Net Position - Governmental Funds</b>	<b>\$</b>	<b><u>(16,922,839)</u></b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**Columbia School District**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2018**

	<u>General</u>	<u>Debt Service</u> 2014 Debt Service Fund	<u>Other</u> Governmental Funds	<u>Total Governmental</u> Funds
<b>Revenues</b>				
Property Taxes	\$ 4,528,939	\$ 1,977,421	\$ --	\$ 6,506,360
Other Local Sources	341,241	--	211,560	552,801
State Sources	8,672,763	--	23,496	8,696,259
Federal Sources	336,585	--	399,531	736,116
Interdistrict and Other	573,430	--	--	573,430
Investment Earnings	2,227	926	273	3,426
<b>Total Revenues</b>	<u>14,455,185</u>	<u>1,978,347</u>	<u>634,860</u>	<u>17,068,392</u>
<b>Expenditures</b>				
Instruction	8,819,766	--	103,376	8,923,142
Support Services	5,212,250	--	--	5,212,250
Community Services	168,350	--	--	168,350
Food Service Activities	--	--	591,665	591,665
Debt Service - Principal	85,000	605,000	--	690,000
Debt Service - Interest	21,063	1,370,234	--	1,391,297
Capital Outlay	41,187	--	21,388	62,575
<b>Total Expenditures</b>	<u>14,347,616</u>	<u>1,975,234</u>	<u>716,429</u>	<u>17,039,279</u>
<b>Excess of Revenues Over</b> <b>(Under) Expenditures</b>	<u>107,569</u>	<u>3,113</u>	<u>(81,569)</u>	<u>29,113</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	44,420	--	--	44,420
Transfers Out	--	--	(44,420)	(44,420)
<b>Net Other Financing Sources (Uses)</b>	<u>44,420</u>	<u>--</u>	<u>(44,420)</u>	<u>--</u>
<b>Net Change in Fund Balance</b>	<u>151,989</u>	<u>3,113</u>	<u>(125,989)</u>	<u>29,113</u>
<b>Fund Balance at Beginning of Period</b>	<u>921,446</u>	<u>210,168</u>	<u>408,429</u>	<u>1,540,043</u>
<b>Fund Balance at End of Period</b>	<u>\$ 1,073,435</u>	<u>\$ 213,281</u>	<u>\$ 282,440</u>	<u>\$ 1,569,156</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**Columbia School District**  
**Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance with Statement of Activities**  
**For the Year Ended June 30, 2018**

Total Net Change in Fund Balances - Governmental Funds	\$	29,113
<p>Governmental funds report capital outlay as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and expensed. This amount represents current year depreciation expense of \$1,104,757 less current year capital outlay expenditure of \$62,575.</p>		
		(1,042,182)
<p>Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This amount includes both repayments of bond holders and amortization of bond premiums as well.</p>		
		720,292
<p>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 governmental funds.</p>		
		4,614
<p>Compensated absences are recorded as expenditures when financial resources are used in the governmental funds while in the statement of activities.</p>		
		6,707
<p>Governmental funds report the required pension contributions as an expenditure. The Statement of Activities reports the fully accrued pension expense based upon a September year-end to coincide with the State of Michigan's fiscal year. The following are changes within the net pension liability and related inflows and outflows.</p>		
		689,205
<p>Governmental funds report the required OPEB contributions as an expenditure. The Statement of Activities reports the fully accrued pension expense based upon a September year-end to coincide with the State of Michigan's fiscal year. The following are changes within the net OPEB liability and related inflows and outflows.</p>		
		155,993
<b>Changes in Net Position - Governmental Funds</b>	<b>\$</b>	<b><u>563,742</u></b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**Columbia School District  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2018**

	<b>Private Purpose Trust</b>	<b>Agency</b>
	<b>Private Purpose Trust Fund</b>	<b>Agency Fund</b>
<b>ASSETS</b>		
Cash and Investments	\$ 36,715	\$ 123,269
<i>Total Assets</i>	<i>36,715</i>	<i>123,269</i>
<b>LIABILITIES</b>		
Due to Student Groups	--	123,269
<i>Total Liabilities</i>	<i>--</i>	<i>123,269</i>
<b>NET POSITION</b>		
Held in Trust	\$ 36,715	\$ --

The Notes to the Financial Statements are an integral part of these Financial Statements

**Columbia School District  
Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
For the Year Ended June 30, 2018**

	<b>Private Purpose Trust Fund</b>
<b>Additions</b>	
<b>Investment Income</b>	
Interest, Dividends, and Other Investment Gains (Losses)	\$ 96
<i>Total Investment Income</i>	96
<i>Total Additions</i>	96
<b>Deductions</b>	
Administration Expense	--
<i>Total Deductions</i>	--
<i>Change in Net Position</i>	<b>96</b>
<i>Net Position at Beginning of Period</i>	36,619
<i>Net Position at End of Period</i>	<b>\$ 36,715</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

## **Notes to the Financial Statements**

# Columbia School District

## Notes to the Financial Statements

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### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of Columbia School District (the “School District” or “government”) conform to generally accepted accounting principles as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District’s significant accounting policies are described below.

#### ***Reporting Entity***

The financial reporting entity consists of a primary government and is governed by an elected seven-member Board of Education. The School District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the School District for financial statement presentation purposes, and the School District is not included in any other governmental reporting entity. The School District does not contain any component units.

#### ***District-wide and Fund Financial Statements***

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the 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.

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 funds are reported as separate columns in the fund financial statements.

#### ***Measurement Focus, Basis of Accounting and Financial Statement Presentation***

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Agency funds also use the accrual basis of accounting, but 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

## Columbia School District

### Notes to the Financial Statements

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recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

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, or one year for reimbursement-based grants. 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.

Revenues susceptible to accrual are property taxes, state aid, federal and inter-district revenues and interest income and, accordingly, have been recognized as revenues of the current fiscal year. Other revenues are recognized when received.

The School District reports the following major fund:

The ***general fund*** is the general operating fund of the School District. It is used to account for all financial resources, except those required to be accounted for in another fund.

The ***2014 debt service fund*** is used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, and leases) principal, interest, and related costs.

Additionally, the School District reports the following fund types:

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

***Capital projects funds*** account for the accumulation and disbursement of resources for the construction of governmental fund capital projects.

***Fiduciary funds*** account for resources held by the School District in a trustee capacity for student activities. The School District also maintains a trust fund, the Disbrow Scholarship Fund, which is a private purpose trust fund maintained to record the segregated monies restricted for scholarships and the related transactions for distributions of awards.

#### ***Budgets and Budgetary Accounting***

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law for the general fund and special revenue funds. Annual appropriations lapse at fiscal year-end.

## Columbia School District

### Notes to the Financial Statements

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The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations for the general fund, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to fiscal year-end.

#### ***State Revenue***

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

The State portion of the foundation is provided primarily by a State education property tax millage of six mills on Principal Residence Exemption (PRE) property and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by non-PRE property (non-homestead) taxes which may be levied at a rate of up to 18 mills plus 6 mills on Commercial Personal Property. The State revenue is recognized during the foundation period and is funded

# Columbia School District

## Notes to the Financial Statements

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through payments from October to August of each year. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

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

### ***Property Taxes***

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied and become a lien as of December 1 and are due upon receipt of the billing by the taxpayer and becomes a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. Assessed values are established annually by the various governmental units within the School District and are equalized by the State of Michigan. For the year ended June 30, 2018, the School District levied the following amounts per \$1,000 of assessed valuation:

General fund – Non-principal residence	18.000 mills
General fund – Commercial personal property	6.000 mills
Debt funds – all taxable values	3.220 mills

### **Assets, Liabilities, and Fund Equity**

#### ***Cash and Cash Equivalents***

The School 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.

State statutes and School District policy authorize the School District to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

## Columbia School District

### Notes to the Financial Statements

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- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

#### ***Investments***

Investments are stated at fair market value. Investments are exposed to various risks, such as significant external events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position.

#### ***Receivables and Payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). All receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. No amounts have been deemed uncollectable during the current year.

#### ***Inventories***

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of food commodities and related supplies.

#### ***Capital Assets***

Capital assets, which include land, buildings and improvements, buses and other vehicles, and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at acquisition value at the date of donation.

**Columbia School District**

Notes to the Financial Statements

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The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset’s useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and Improvements	20-50
Buses and Other Vehicles	10
Furniture and Equipment	7-10

***Pension***

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

***Postemployment Benefits Other Than Pensions***

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

***Deferred Outflows of Resources***

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future (period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School District has two items that qualify for reporting in this category. They are the pension and other postemployment benefits related items reporting in the district-wide statement of net position. Deferred outflows are recognized for pension and other postemployment benefit related items. These amounts are expensed in the plan year in which they apply.

## Columbia School District

### Notes to the Financial Statements

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#### ***Deferred Inflows of Resources***

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The School District has three items that qualify for reporting in this category. The first is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension and other postemployment benefit contributions subsequent to the measurement period. The second and third items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary.

#### ***Salaries Payable and Accrued Employee Benefits***

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the School District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for the employee health insurance premiums for the months of July and August. The School District pays these insurances for this period as part of the compensation for services rendered in the preceding school year.

#### ***Compensated Absences***

School District employees are granted vacation and sick leave in varying amounts based on length of service. Unused vacation time and sick leave accumulate from year to year at varying rates, depending on the employees' applicable rate of pay and/or employment category. The liability for compensated absences includes salary-related payments. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

#### ***Long-term Obligations***

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bond issuance costs are recorded as a period expense. Bonds payable are reported at the total amount of bonds issued.

## Columbia School District

### Notes to the Financial Statements

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

#### ***Net Position Flow Assumption***

Sometimes the School District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the School District’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

#### ***Fund Balance Flow Assumptions***

Sometimes the School District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

#### ***Fund Balance Policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. 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 resources by grantors, contributors, or laws or regulations of other governments. The School District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The *committed fund balance* classification includes amounts that can be used only for the specific purposes determined by a formal action of the School District’s highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund

**Columbia School District**

Notes to the Financial Statements

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balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the *assigned fund balance* classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as committed. The Board of Education can assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

*Unassigned fund balance* is the residual classification for the School District's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the Board of Education.

***Use of Estimates***

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

**Note 2 - Stewardship, Compliance and Accountability**

Michigan law provides that a local unit shall not incur expenditures in excess of the amount appropriated.

The School District's actual expenditures and budgeted expenditures for the budgeted funds have been shown at the department level. The approved budgets of the School District for these budgeted funds were also adopted at the department level.

***Excess of Expenditures Over Appropriations in Budgeted Funds***

The School District had the following expenditures in excess of the amounts appropriated during the year ended June 30, 2018:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>General Fund</b>			
General Administration	\$ 428,840	\$ 445,293	\$ (16,453)
School Administration	808,912	821,260	(12,348)
Operation and Maintenance	1,512,390	1,527,379	(14,989)
Capital Outlay	19,967	41,187	(21,220)

**Columbia School District**

Notes to the Financial Statements

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***District-Wide Deficits***

The School District has an unrestricted net position deficit for District-wide activities in the amount of \$(22,352,140) as of June 30, 2018.

**Note 3 - Cash and Investments**

The School District maintains pooled and individual fund demand deposits, certificates of deposit, and short-term investment accounts.

Following is a reconciliation of deposit and investment balances as of June 30, 2018:

Statement of Net Position	
Cash and Investments	\$ 1,338,006
Statement of Fiduciary Assets and Liabilities	
Cash and Investments	<u>159,984</u>
Total Deposits and Investments	<u>\$ 1,497,990</u>
Deposits and Investments	
Checking and Savings Accounts	\$ 1,293,416
Investments	<u>204,574</u>
Total	<u>\$ 1,497,990</u>

***Custodial Credit Risk - Deposits.*** Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits might not be returned. State law does not require and the School District does not have a policy for deposit custodial credit risk. As of year-end, \$1,172,334 of the School District's bank balance of \$1,422,334 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the School District believes it is impractical to insure all bank deposits. As a result, the School District evaluates each financial institution with which it deposits School District funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

***Custodial Credit Risk – Investments.*** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In order to minimize this risk, School District policy limits the types of investments and pre-qualifies financial institutions. As of June 30, 2018, none of the School District's investments were exposed to risk since the securities are held in the School District's name by the counterparty.

**Columbia School District**

Notes to the Financial Statements

Following is a summary of the School District’s investments as of June 30, 2018:

Cash Equivalents	\$ 202,718
Certificates of Deposit	1,856
	\$ 204,574

**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 in the summary of significant accounting policies. The School District’s investment policy does not have specific limits in excess of state law on investment credit risk.

Credit risk ratings, where applicable, are summarized as follows:

Rating Agency	Rating	FMV
Not Rated	N/A	\$ 204,574

**Interest Rate Risk.** Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The School 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.

Maturity dates for investments and certificates of deposit held at year-end are summarized as follows:

	Certificates of Deposit	Investments
Due Within One Year	\$ 1,856	\$ 202,718

**Concentration of Credit Risk.** Concentration of credit risk is the risk of loss attributed to the magnitude of the School District’s investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The School District’s investment policy does not limit investments in a single financial institution of a single security type (with the exception of U.S. treasuries and agencies and authorized pools) to a % of the total investment portfolio. All investments held at year end are reported above.

**Columbia School District**

Notes to the Financial Statements

***Fair Value Measurements***

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs.

There are three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

As of June 30, 2018, the fair value measurements of investments and cash equivalents were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Fair Value</u>
<b>Investment Type</b>			
Certificates of Deposit	\$ -	\$ 1,856	\$ 1,856
Cash Equivalents	202,718	-	202,718
<b>Total Investments</b>	<u>\$ 202,718</u>	<u>\$ 1,856</u>	<u>\$ 204,574</u>

**Note 4 - Interfund Transfers**

The following schedule summarizes operating transfers during the year:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General	Food Service Fund	\$ 44,420

Interfund 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 to finance various programs accounted for

**Columbia School District**

Notes to the Financial Statements

in other funds in accordance with budgetary authorizations.

**Note 5 - State of Michigan School Aid**

The School District reports State of Michigan school aid in the fiscal year in which the School District is entitled to the revenue as provided by State of Michigan School aid appropriation acts. State funding provided approximately 51 percent of the total revenues to the School District during the 2018 fiscal year.

**Note 6 - Capital Assets**

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

	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not Being Depreciated				
Land	\$ 23,700	\$ -	\$ -	\$ 23,700
Capital Assets Being Depreciated				
Buildings and Improvements	43,415,131	-	-	43,415,131
Buses and Other Vehicles	795,212	-	-	795,212
Furniture and Equipment	947,395	62,575	-	1,009,970
Total Capital Assets Being Depreciated	45,157,738	62,575	-	45,220,313
Less Accumulated Depreciation				
Buildings and Improvements	8,783,735	1,049,625	-	9,833,360
Buses and Other Vehicles	741,901	13,461	-	755,362
Furniture and Equipment	737,736	41,671	-	779,407
Total Accumulated Depreciation	10,263,372	1,104,757	-	11,368,129
Capital Assets Being Depreciated, Net	34,894,366	(1,042,182)	-	33,852,184
Capital Assets, Net	\$ 34,918,066	\$ (1,042,182)	\$ -	\$ 33,875,884

## Columbia School District

### Notes to the Financial Statements

Depreciation expense was charged to activities of the School District as follows:

Instruction	\$ 983,322
Support Services	14,572
Food Service	5,664
Unallocated	101,199
	\$ 1,104,757

#### Note 7 - Long-term Debt

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

The following is a summary of the changes in long-term debt (including current portion) of the School District for the year ended June 30, 2018:

	Beginning Balance	Reductions	Ending Balance	Amounts Due Within One Year
2005 Energy Bonds	\$ 365,000	\$ 85,000	\$ 280,000	\$ 90,000
2014 Building and Site Bonds	28,510,000	605,000	27,905,000	630,000
Bond premiums	787,596	30,292	757,304	-
Compensated absences	153,245	6,707	146,538	-
<b>Total</b>	<b>\$ 29,815,841</b>	<b>\$ 726,999</b>	<b>\$ 29,088,842</b>	<b>\$ 720,000</b>

Annual debt service requirements, exclusive of compensated absences and net pension liability, for long-term debt outstanding as of June 30, 2018 follows:

	Principal	Interest	Total
2019	\$ 720,000	1,281,808	\$ 2,001,808
2020	750,000	1,252,828	2,002,828
2021	780,000	1,216,088	1,996,088
2022	720,000	1,177,800	1,897,800
2023	750,000	1,149,000	1,899,000
2024-2028	4,340,000	5,351,500	9,691,500
2029-2033	5,365,000	4,314,450	9,679,450
2034-2038	6,590,000	3,140,512	9,730,512
2039-2043	8,170,000	1,570,502	9,740,502
Total	\$ 28,185,000	\$ 20,454,488	\$ 48,639,488

**Columbia School District**

Notes to the Financial Statements

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General obligation bonds and loans consist of:

\$1,110,000 serial bonds due in annual installments of \$85,000 to \$95,000 through May 1, 2021; interest at 4.0% to 4.25%	\$ 280,000
\$29,875,000 serial bonds, due in annual installments of \$580,000 to \$1,755,000 through May 1, 2043; interest at 4.0% to 5.0%	<u>27,905,000</u>
Total bonded debt	<u>\$ 28,185,000</u>

**Note 8 - Leases**

The District leases its buses, and expenditures for the leases totaled \$244,874 included as pupil transportation in support services. These leases were amended for the fiscal year 18/19 with similar terms including lease costs for twenty buses of \$11,625 per bus. The District is responsible for insurance, maintenance, and operation costs. Mileage allowance is set at 15,000 miles per year for each bus with additional charges of \$.25 per mile over the allowance. Future minimum lease payments for the fiscal years ended June 30, 2019 are approximately \$232,500.

**Note 9 - Federal and State Grants**

The District has received federal and State grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

**Note 10 – Employee Retirement System**

*Plan Description*

The Michigan Public School Employees’ Retirement System (MPERS) (System) is a cost sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the Board’s authority to promulgate or amend the provisions of the System. MPERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at [www:michigan.gov/ors](http://www.michigan.gov/ors) schools.

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 option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees’ Retirement Act.

**Columbia School District**

Notes to the Financial Statements

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

***Benefits Provided - Overall***

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

<b><u>Plan Name</u></b>	<b><u>Plan Type</u></b>	<b><u>Plan Status</u></b>
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined Contribution	Open

***Benefits Provided - Pension***

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

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

***Pension Reform 2010***

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

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#### ***Pension Reform 2012***

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

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

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

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

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

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

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

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

## Columbia School District

### Notes to the Financial Statements

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a pension (calculated based on years of service and final average compensation as of the day before their transition date and a 1.5% pension factor).

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

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

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

#### ***Pension Reform of 2017***

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

#### ***Benefits Provided - Other Postemployment Benefit (OPEB)***

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

## Columbia School District

### Notes to the Financial Statements

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#### ***Retiree Healthcare Reform of 2012***

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

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

#### ***Regular Retirement (no reduction factor for age)***

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

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

#### ***Member Contributions***

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

#### ***Employer Contributions***

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

# Columbia School District

## Notes to the Financial Statements

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

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

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

	<u>Pension</u>	<u>OPEB</u>
October 1, 2016 - September 30, 2017	15.27% - 19.03%	5.69% - 5.91%
October 1, 2017 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%

The School District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total of \$1,897,092.

The District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total of \$630,556.

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

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

#### ***Pension Liabilities***

At June 30, 2018, *the School District* reported a liability of \$20,959,742 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 and rolled forward using generally accepted actuarial procedures. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was 0.08088% which was an increase of 0.00195% from its proportion measured as of September 30, 2016.

## Columbia School District

### Notes to the Financial Statements

<b>MPSERS (Plan) Non-university Employers</b>	<b>September 30, 2017</b>	<b>September 30, 2016</b>
Total pension liability	\$ 72,407,218,688	\$ 67,917,445,078
Plan fiduciary net position	46,492,967,573	42,968,263,308
Net pension liability	\$ 25,914,251,115	\$ 24,949,181,770
Proportionate share	0.08088%	0.07893%
Net pension liability for the School District	\$ 20,959,742	\$ 19,692,402

***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

For the year ending June 30, 2018, the School District recognized pension expense of \$2,764,113.

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

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between actual and expected experience	\$ 182,154	\$ 102,845
Changes of assumptions	2,296,306	-
Net difference between projected and actual earnings on pension plan investments	-	1,002,014
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,487,411	37,032
Employer contributions subsequent to the measurement date	2,092,397	-
<b>Total</b>	<b>\$ 6,058,268</b>	<b>\$ 1,141,891</b>

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

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

<b>Plan Year Ended September 30</b>	<b>Amount:</b>
2018	\$ 973,446
2019	1,257,714
2020	582,390
2021	10,430

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

***OPEB Liabilities***

At June 30, 2018, the School District reported a liability of \$7,172,218 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was 0.08099 percent.

<b>MPSERS (Plan) Non-university Employers</b>	<b>September 30, 2017</b>
Total other postemployment benefits liability	\$ 13,920,945,991
Plan fiduciary net position	5,065,474,948
Net other postemployment benefits liability	\$ 8,855,471,043
Proportionate share	0.08099%
Net other postemployment benefits liability for the School District	\$ 7,172,218

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

For the year ending June 30, 2018, the School District recognized OPEB expense of \$480,980.

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

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between actual and expected experience	\$ -	\$ 76,363
Net difference between projected and actual earnings on pension plan investments	-	166,110
Changes in proportion and differences between Employer contributions and proportionate share of contributions	5,583	-
Employer contributions subsequent to the measurement date	387,071	-
<b>Total</b>	<b>\$ 392,654</b>	<b>\$ 242,473</b>

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

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

<b>Plan Year Ended</b>	
<b>September 30</b>	<b>Amount:</b>
2018	\$ (57,346)
2019	(57,346)
2020	(57,346)
2021	(57,346)
2022	(7,506)

***Actuarial Assumptions***

***Investment rate of return for pension*** - 7.5% a year, compounded annually net of investment and administrative expenses for the non-hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the hybrid group (Pension Plus Plan).

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

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

***Inflation*** - 3.0%.

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

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

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

**Columbia School District**

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weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**Cost of living pension adjustments** - 3.0% annual non-compounded for MIP members.

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

**Additional assumptions for other postemployment benefit only - applies to individuals hired before September 4, 2012:**

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

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

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

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

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

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

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

**Columbia School District**

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all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

***Sensitivity of the net pension liability to changes in the discount rate*** - The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for Pension Plus Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

<b>Pension</b>		
<b>1% Decrease (Non-Hybrid/Hybrid)</b>	<b>Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)</b>	<b>1% Increase (Non-Hybrid/Hybrid)</b>
<b>6.5% / 6.0%</b>	<b>7.5% / 7.0%</b>	<b>8.5% / 8.0%</b>
\$27,303,572	\$20,959,742	\$15,618,641

***Sensitivity of the net OPEB liability to changes in the discount rate*** -The following presents the Reporting Unit's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the Reporting Unit's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

<b>Other Postemployment Benefits</b>		
<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
<b>6.5%</b>	<b>7.5%</b>	<b>8.5%</b>
\$8,400,740	\$7,172,218	\$6,129,587

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

<b>Other Postemployment Benefits</b>		
<b>1% Decrease</b>	<b>Current Healthcare Cost Trend Rate</b>	<b>1% Increase</b>
<b>6.5%</b>	<b>7.5%</b>	<b>8.5%</b>
\$6,073,904	\$7,172,218	\$8,419,276

***Pension and OPEB Plan Fiduciary Net Position***

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

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

***Other Information***

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

**Note 11 - Risk Management**

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

**Columbia School District**

Notes to the Financial Statements

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**Note 12 - Subsequent Events**

Subsequent events were evaluated through October 29, 2018, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would have a significant impact on the financial condition of the District.

**Note 13 - New Accounting Standards**

For the year ended June 30, 2018, the School District implemented the following new pronouncements: GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

**Summary:**

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

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

	<b>Governmental Activities</b>
Net position - July 1, 2017 - As previously reported	\$ (10,308,551)
Adoption of GASB Statement 75:	
Net other post employment benefit liability	(7,565,101)
Deferred outflows	387,071
Net position - July 1, 2017 - As restated	<u>\$ (17,486,581)</u>

**Note 14 - Upcoming Accounting Pronouncements**

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and will be effective for the School District's 2020 year-end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on: 1) whether a government is controlling

## Columbia School District

### Notes to the Financial Statements

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the assets of the fiduciary activity and 2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. School districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

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

## **Required Supplementary Information**

**Columbia School District**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>Positive (Negative) Final to Actual</b>
<b>Revenues</b>				
Local Sources	\$ 4,889,085	\$ 4,838,302	\$ 4,870,180	\$ 31,878
State Sources	8,230,208	8,670,117	8,672,763	2,646
Federal Sources	391,828	334,832	336,585	1,753
Interdistrict and Other	545,400	554,392	573,430	19,038
Investment Earnings	--	--	2,227	2,227
<b>Total Revenues</b>	<u>14,056,521</u>	<u>14,397,643</u>	<u>14,455,185</u>	<u>57,542</u>
<b>Other Financing Sources</b>				
Transfers In	35,000	35,000	44,420	9,420
<b>Total Revenues and Other Financing Sources</b>	<u>14,091,521</u>	<u>14,432,643</u>	<u>14,499,605</u>	<u>66,962</u>
<b>Expenditures</b>				
<b>Instruction</b>				
Basic Programs	7,143,687	7,362,830	7,249,771	113,059
Added Needs	1,727,846	1,607,238	1,569,995	37,243
<b>Total Instruction</b>	<u>8,871,533</u>	<u>8,970,068</u>	<u>8,819,766</u>	<u>150,302</u>
<b>Supporting Services</b>				
Pupil	278,128	273,060	254,523	18,537
Instruction Staff	368,726	347,499	334,443	13,056
General Administration	394,717	428,840	445,293	(16,453)
School Administration	825,295	808,912	821,260	(12,348)
Business Services	225,454	630,314	608,837	21,477
Operation and Maintenance	1,466,497	1,512,390	1,527,379	(14,989)
Pupil Transportation	931,534	905,190	822,006	83,184
Central Services	41,638	36,756	27,515	9,241
Athletic Activities	379,869	377,820	370,994	6,826
<b>Total Supporting Services</b>	<u>4,911,858</u>	<u>5,320,781</u>	<u>5,212,250</u>	<u>108,531</u>
<b>Community Services</b>	194,442	179,520	168,350	11,170
<b>Debt Service</b>	110,193	106,850	106,063	787
<b>Capital Outlay</b>	5,000	19,967	41,187	(21,220)
<b>Total Expenditures</b>	<u>14,093,026</u>	<u>14,597,186</u>	<u>14,347,616</u>	<u>249,570</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures</b>	<u>(1,505)</u>	<u>(164,543)</u>	<u>151,989</u>	<u>316,532</u>
<b>Net Change in Fund Balance</b>	<u>(1,505)</u>	<u>(164,543)</u>	<u>151,989</u>	<u>316,532</u>
<b>Fund Balance at Beginning of Period</b>	921,446	921,446	921,446	--
<b>Fund Balance at End of Period</b>	<u>\$ 919,941</u>	<u>\$ 756,903</u>	<u>\$ 1,073,435</u>	<u>\$ 316,532</u>

**Columbia School District**  
**Schedule of School District's Proportionate Share of Net Pension Liability**  
**Michigan Public School Employee Retirement Plan**  
**Last Four Fiscal Years (Amounts were determined as of September 30 of each fiscal year)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School District's Portion of Net Pension Liability (%)	0.08088%	0.07890%	0.07370%	0.06907%
School District's Proportionate Share of Net Pension Liability	\$ 20,959,742	\$ 19,692,402	\$ 18,001,450	\$ 15,213,653
School District's Covered Payroll	\$ 6,787,069	\$ 6,875,410	\$ 6,282,114	\$ 5,949,287
School District's Proportionate Share of Net Pension Liability as a Percentage of its Covered Payroll	308.82%	286.42%	286.55%	255.72%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	64.21%	63.27%	63.27%	63.17%

**Columbia School District  
Schedule of School District's Pension Contributions  
Michigan Public School Employee Retirement Plan  
Last Four School District Fiscal Years (Amounts determined as of June 30 of each year)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily Required Contributions	\$ 1,897,092	\$ 1,772,415	\$ 1,773,903	\$ 1,354,250
Contributions in Relation to Statutorily Required Contributions	<u>1,897,092</u>	<u>1,772,415</u>	<u>1,773,903</u>	<u>1,354,250</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's Covered Payroll	\$ 6,713,636	\$ 6,802,121	\$ 6,501,000	\$ 6,238,072
Contributions as a Percentage of Covered Payroll	28.26%	26.06%	27.29%	21.71%

**Columbia School District**  
**Schedule of School District's Proportionate Share of Net OPEB Liability**  
**Michigan Public School Employee Retirement Plan**  
**Last Fiscal Year (Amounts were determined as of September 30 of each fiscal year)**

	<b>2017</b>
School District's Portion of Net OPEB Liability (%)	0.08099%
School District's Proportionate Share of Net OPEB Liability	\$ 7,172,218
School District's Covered Payroll	\$ 6,787,069
School District's Proportionate Share of Net OPEB Liability as a Percentage of its Covered Payroll	105.67%
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	0.00%

**Columbia School District  
Schedule of School District's OPEB Contributions  
Michigan Public School Employee Retirement Plan  
Last School District Fiscal Year (Amounts determined as of June 30 of each year)**

	<b>2018</b>
Statutorily Required Contributions	\$ 630,556
Contributions in Relation to Statutorily Required Contributions	630,556
Contribution Deficiency (Excess)	\$ -
School District's Covered Payroll	\$ 6,713,636
Contributions as a Percentage of Covered Payroll	9.39%

**Combining and Individual Fund Statements and Schedules**

**Columbia School District  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2018**

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service Fund</u>	<u>Capital Project Fund #1</u>	
<b>ASSETS</b>			
Cash and Investments	\$ 228,258	\$ 95,680	\$ 323,938
Due from Other Governmental Units	4,047	--	4,047
Inventories	7,651	--	7,651
<i>Total Assets</i>	<u>\$ 239,956</u>	<u>\$ 95,680</u>	<u>\$ 335,636</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 44,853	\$ --	\$ 44,853
Accrued Expenditures	8,343	--	8,343
<i>Total Liabilities</i>	<u>53,196</u>	<u>--</u>	<u>53,196</u>
<b>FUND BALANCE</b>			
Nonspendable	7,651	--	7,651
Restricted	179,109	95,680	274,789
Unassigned	--	--	--
<i>Total Fund Balance</i>	<u>186,760</u>	<u>95,680</u>	<u>282,440</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 239,956</u>	<u>\$ 95,680</u>	<u>\$ 335,636</u>

**Columbia School District**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2018**

	<u>Special Revenue</u>	<u>Capital Projects</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service Fund</u>	<u>Capital Project Fund #1</u>	<u>Capital Project Fund #2</u>	
<b>Revenues</b>				
Other Local Sources	\$ 211,560	\$ --	\$ --	\$ 211,560
State Sources	23,496	--	--	23,496
Federal Sources	399,531	--	--	399,531
Investment Earnings	273	--	--	273
<b>Total Revenues</b>	<u>634,860</u>	<u>--</u>	<u>--</u>	<u>634,860</u>
<b>Expenditures</b>				
Instruction	--	91,558	11,818	103,376
Food Service Activities	591,665	--	--	591,665
Capital Outlay	21,388	--	--	21,388
<b>Total Expenditures</b>	<u>613,053</u>	<u>91,558</u>	<u>11,818</u>	<u>716,429</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>21,807</u>	<u>(91,558)</u>	<u>(11,818)</u>	<u>(81,569)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	(44,420)	--	--	(44,420)
<b>Net Other Financing Sources (Uses)</b>	<u>(44,420)</u>	<u>--</u>	<u>--</u>	<u>(44,420)</u>
<b>Net Change in Fund Balance</b>	<b>(22,613)</b>	<b>(91,558)</b>	<b>(11,818)</b>	<b>(125,989)</b>
<i>Fund Balance at Beginning of Period</i>	209,373	187,238	11,818	408,429
<b>Fund Balance at End of Period</b>	<b>\$ 186,760</b>	<b>\$ 95,680</b>	<b>\$ --</b>	<b>\$ 282,440</b>

October 29, 2018

To the Board of Education  
Columbia School District  
Brooklyn, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Columbia School District (the "School District") for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 10, 2018. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 to the financial statements. The School District adopted GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as seen in note 1, 10, and 13 during the fiscal year ended June 30, 2018. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Estimates have been used to calculate the net pension liability and the net other postemployment benefit liability.

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

***Difficulties Encountered in Performing the Audit***

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

***Corrected and Uncorrected Misstatements***

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

***Disagreements with Management***

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

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated October 29, 2018.

***Management Consultations with Other Independent Accountants***

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

***Other Audit Findings or Issues***

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

## **Other Matters**

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

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

## **Restriction on Use**

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

Very truly yours,

A handwritten signature in cursive script that reads "Gabridge & Company".

Gabridge & Company, PLC  
Grand Rapids, MI  
October 29, 2018

**Independent Auditor's Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance With *Government Auditing Standards***

To the Board of Education  
Columbia School District  
Brooklyn, 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 Columbia School District (the "School District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 29, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School 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 School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School 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 School 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Gabridge & Company, PLC  
Grand Rapids, MI  
October 29, 2018