BESSEMER AREA SCHOOLS

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2018

GABRIDGE & CO.

TABLE OF CONTENTS

GABRIDGE & CO

3940 PENINSULAR DR SE, SUITE 130 / GRAND RAPIDS, MI / 49546-2442 / P 616 538 7100 / F 616 538 2441 / WWW.GABRIDGECO.COM

INDEPENDENT AUDITOR'S REPORT

To the President and Members of the Board of Education
Bessemer Area Schools
Bessemer, 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 Bessemer Area Schools, Gogebic County, 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 School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 J 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 liability and net other OPEB liability 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, as listed in the table of contents, 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 22, 2018, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Gabridge & Company

Gabridge & Company, PLC
Grand Rapids, MI
October 22, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Bessemer Area Schools
Management's Discussion and Analysis
June 30, 2018

This section of Bessemer Area Schools (the "School District"), Gogebic County, Michigan's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2018. 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 Managements Discussion and Analysis - for State and Local Governments* and is intended to provide the financial results for the fiscal year ending June 30, 2018.

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 adopted a final general fund budget with a projected increase in fund balance of $4,415. The operating millage rate remained the same for 2018 as it was for 2017, which is 17.9694. The actual results of operation in the general fund showed that expenditures were approximately $10,414 less than the final general fund budget and that revenues were approximately $40,112 more than the final general fund budget.

- At June 30, 2018 the total net position was a deficit of $4,823,048 which included a $6,524,884 deficit unrestricted net position balance.

- Total net position increased $261,716 from $(5,084,764) in 2017 to $(4,823,048) in 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 $640,618. Of the $640,618, $10,326 was allocated as nonspendable due to it representing the amount of inventory on the balance sheet. Another $445,000 was assigned for a 5% revenue reserve, debt service, capital projects, and other uses. The remaining $185,292 is unassigned and represents approximately 4.6% of the general fund revenues for the year ended 2018.

USING THE ANNUAL FINANCIAL REPORT

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

The first two basic statements are district-wide financial statements that provide both short-term and long-term information about the School District's overall financial status.

The remaining basic financial 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. The governmental statements tell how general School District services were financed in the short-term as well as what remains for future spending. They are formatted to comply with the legal requirements of the Michigan Department of Education's Accounting Manual.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the School District's budget for the year.

Figure A-2 summarizes the major features of the School District's financial statements.

		Fund Financial Statements	
	District-wide Statements	Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of Net Position * Statement of Activities	* Balance Sheet * Statement of Revenues, Expenditures, and Changes in Fund Balance	* Statement of Fiduciary Net Position * Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.
Type of asset/liability information	All assets and liabilities, both financial and capital, both short-term and long-term.	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.	All assets and liabilities, both short-term and long-term, BLS's funds do not currently contain capital assets, although they can.
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable.	All additions and deductions during the year, regardless of when cash is received or paid.

OVERVIEW OF THE FINANCIAL STATEMENTS

District-wide Financial Statements

The district-wide financial statements appear first in the financial report. These financial statements include the statement of net position and the statement of activities. They report information about the School District as a whole. The statements are prepared using the accrual basis of accounting which is the accounting basis used by most private sector businesses. The statement of net position includes all of the School District's assets, deferred ouflows and inflows, and liabilities. All current year revenues and expenses are reported in the statement of activities. The two statements report the governmental activities of the School District that include all services performed by the School District, including but not limited to instruction, support services, food services, athletics, debt service and capital projects. These activities are funded mostly by state aid as determined by pupil counts, federal and state grants, and local property taxes.

The statement of net position shows the School District's assets, deferred outflows and inflows, and liabilities. The corresponding balance between the amounts calculates the net position or deficit of the School District. A deficit occurs when there are more liabilities and deferred inflows than there are assets and deferred outflows to pay those liabilities. This statement measures the financial strength of the School District; in general the greater the net position figure, the healthier the School District. This shows if the School District will be able to fund their current obligations and what they have available for future use.

The statement of activities shows the current year change in net position on a "revenue less expense" basis. It generally displays the operating results for a given year of the School District. Any excess of revenues over expenses results in a surplus for the year that in turn increases the net position (or reduces a deficit) available to fund future needs of the School District. Any deficiency of revenues over expenses results in a deficit for the year that in turn reduces the net position (or increases a deficit) of the School District.

Fund Financial Statements

The School District's fund financial statements presents detail of funds that are determined to be significant, called major funds. The fund that is separately stated as a major fund is the general fund, which is the operating fund, of the School District. All other funds of the School District are considered nonmajor and are reported as one column. Separate funds are often required to be set up and separately recorded due to state or federal statutes or other contractual agreements. The School District may also choose to set up separate funds to better control and track certain monies. All of the School District's services are reported as governmental fund types. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The School District has two nonmajor governmental funds. The food service fund, which accounts for the breakfast and hot lunch programs, is a special revenue fund. The School District also reports a debt retirement fund for the 2003 Refunding Bonds.

Fiduciary funds are funds that account for certain activities in which the School District acts as a trustee or in an agent capacity. The School District has an agency fund, which accounts for various student and other activity groups that raise funds for specific purposes. These activities are not included in the district-wide financial statements as they represent resources that are not available for School District operations.

Governmental funds are accounted for by using an accounting method called modified accrual accounting (flow of current resources measurement focus). This method records revenues when all applicable eligibility requirements are met and resources are available to finance expenditures of the fiscal period. Expenditures are recorded when the related liability is incurred. The governmental fund financial statements show detail of operations for a given year according to this method of accounting. The individual fund statement helps determine what financial resources are available on a short-term basis to fund operations.

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.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The following table shows the June 30, 2018 and 2017 condensed statement of net position with a detailed analysis of the statement below:

	2018	2017
ASSETS		
Current Assets		
Cash and Investments	$ 476,125	$ 368,491
Due from Other Governments	596,842	578,130
Accounts Receivable	102	102
Inventories	12,752	8,876
Total Current Assets	1,085,821	955,599
Noncurrent Assets		
Capital Assets being Depreciated, Net	2,017,478	2,118,186
Total Assets	3,103,299	3,073,785
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related	1,022,198	603,427
OPEB Related	106,921	106,267
Total Deferred Outflows of Resources	1,129,119	709,694
LIABILIITES		
Current Liabilities		
Accounts Payable	76,376	74,519
Accrued Salaries & Related Liabilities	336,243	281,472
Accrued Interest Payable	2,086	3,250
Current Portion of Long-term Debt	177,543	182,204
Total Current Liabilities	592,248	541,445
Noncurrent Liabilities		
Long-term Debt	170,683	348,165
Compensated Absences	152,503	173,186
Net Pension Liability	5,596,843	5,486,532
Net OPEB Liability	1,911,240	2,015,935
Total Liabilities	8,423,517	8,565,263
DEFERRED INFLOWS OF RESOURCES		
Pension Related	567,335	302,980
OPEB Related	64,614	-
Total Deferred Inflows of Resources	631,949	302,980
NET POSITION		
Net Investment in Capital Assets	1,669,252	1,587,817
Restricted	32,584	13,931
Unrestricted	(6,524,884)	(6,686,512)
Total Net Position	$ (4,823,048)	$ (5,084,764)

This table shows the School District’s net position was $(4,823,048) at June 30, 2018. This is an increase of $261,716 from the previous year. Capital assets, net of related debt, were $1,669,252 at the end of the year. This amount increased by $81,435 from the previous year. This figure is derived by taking the original costs of the School District’s capital assets, subtracting accumulated depreciation to date, and comparing this figure to the amount of long-term debt used to finance the acquisition of those assets. Most of the debt related to the capital assets will be repaid from voter-approved property taxes collected as the debt service comes due.

During fiscal year ended 2018, unrestricted net position increased $161,628 from $(6,686,512) in 2017 to $(6,524,884) in 2018. Restricted net position increased $18,653 in 2018, from $13,931 in 2017 to $32,584 in 2018.

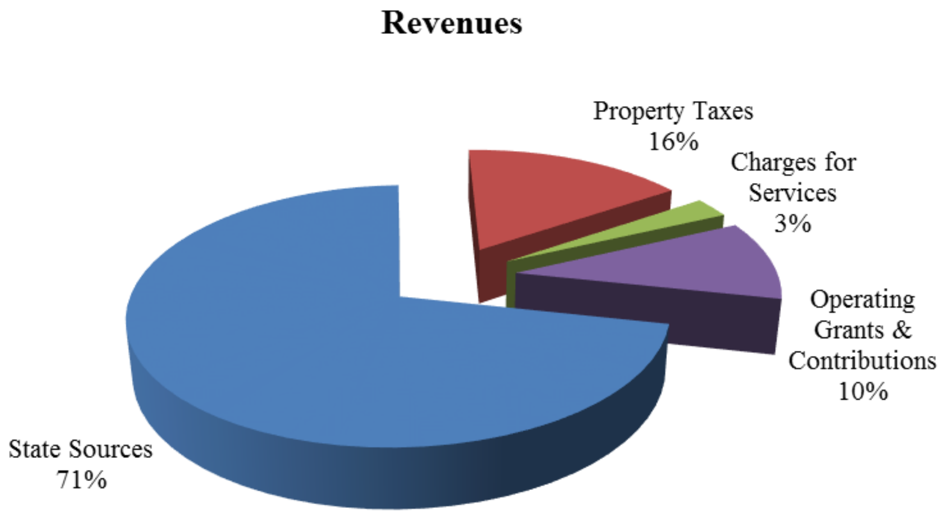
The results of operations for the School District as a whole are reported in the change in net position table below. This statement shows the changes in net position for the fiscal years ended June 30, 2018 and 2017.

		2018		2017
Revenues				
Program Revenues				
Charges for Services	$	114,842	$	91,684
Operating Grants & Contributions		448,054		689,701
Total Program Revenues		562,896		781,385
General Revenues				
Property Taxes & Assessments		700,928		688,236
State Sources		3,117,827		2,627,939
Investment Earnings		1,035		746
Other		-		3,581
Total General Revenues		3,819,790		3,320,502
Total Revenues		4,382,686		4,101,887
Expenses				
Instruction		2,363,800		2,320,289
Supporting Services		1,236,126		1,050,648
Food Services		179,163		167,196
Athletics		134,251		105,671
Interest on Long-term Debt		23,676		22,781
Other		-		563
Depreciation (unallocated)		183,954		177,951
Total Expenses		4,120,970		3,845,099
Increase (Decrease) in Net Position		261,716		256,788
*Net Position at Beginning of Period **		(5,084,764)		(5,341,552)
Net Position at End of Period	$	(4,823,048)	$	(5,084,764)

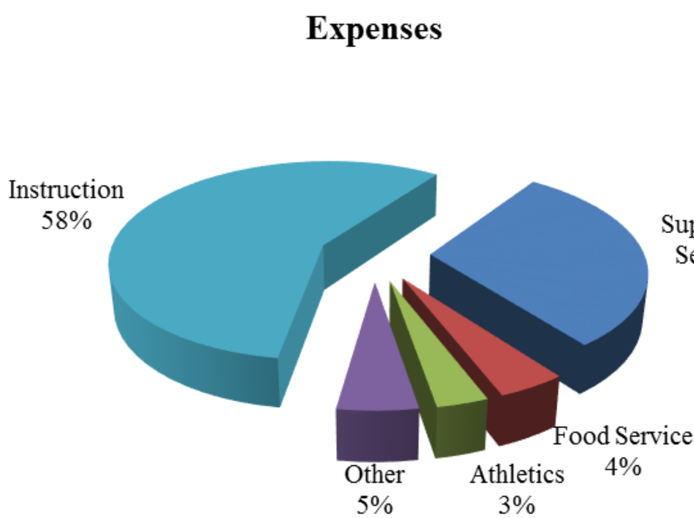
* Net Position at Beginning of Period has been restated. See Note J in the Notes to the Financial Statements.

The School District had an overall increase in net position of $261,716 for the year ended June 30, 2018. Overall, the School District's revenue increased compared to the prior year, from $4,101,887 in 2017 to $4,382,686 in 2018. Total revenues increased by approximately 6.85%, while expenses also increased by approximately 7.17%. State sources account for 71% of total revenues, or $3,117,827. Property taxes assessed to the residents of the School District not restricted for other purposes totaled $700,928. This accounts for 16% of total revenue to be spent on general education and operating needs.

The following chart details the major revenue sources for the governmental activities of the School District for the most recent fiscal year end:



The School District's total cost to fund all school activities was $4,120,970. Approximately 10%, or $448,054, of these costs were financed by those who benefited from the service or funded by grants from other governmental agencies. The following chart illustrates the major expenses for the governmental activities of the School District:



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

General fund revenues increased from the prior year by $253,683. The most significant part of this increase is the increase of $ 240,251 of state sources which included a $120 per student increase in state funding, an increase of approximately seven students compared to the prior year, and increases in MPSERS pension funding. Expenditures in the general fund increased by $393,788 compared to the prior year. The most significant increase was in supporting services expenditures, which increased by $185,478. The general fund had an increase in fund balance during the year of $54,941, from $585,677 in 2017 to $640,618 in 2018.

The other fund balances increased by $18,653 for the year. The 2003 Refunding Bonds reported a fund balance restricted for debt service in the amount of $22,019 at June 30, 2018. Required principal and interest payments were made on the bond. The Food Service reported a restricted fund balance in the amount of $8,139.

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 for the year ended June 30, 2018, was adopted by the Board of Education on June 26, 2017, with the final amendments made on June 25, 2018.

Overall, expenditures were $10,414 less than budgeted. The changes between the original and final budgets were relatively minor for the year. The School District had the following significant expenditures in excess of the amount appropriated during the year ended June 30, 2018:

Function	Amended Budget	Actual	Variance
Guidance Services	44,728	46,076	(1,348)
Technology	95,093	95,651	(558)
Board of Education	23,557	23,876	(319)
Executive Administration	153,861	154,504	(643)
Secondary Office	185,592	185,960	(368)
Fiscal Services	7,970	8,050	(80)
Operations & Maintenance	488,946	494,524	(5,578)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the School District had $2,017,478 invested in capital assets. This included a net decrease during the past fiscal year of $100,708 consisting of $183,954 in depreciation charges compared to capital asset additions of $83,246.

The following table represents the School District's investment in capital assets as of June 30, 2018:

Buildings and Improvements	$ 9,774,151
Equipment	684,007
Furniture and Fixtures	153,381
School Buses and Vehicles	436,704
Subtotal	11,048,243
Accumulated Depreciation	9,030,765
Capital Assets, Net	$ 2,017,478

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

Long-term Debt

The School District had $348,226 of long-term debt as of June 30, 2018, including $177,543 due in the next fiscal year. This includes bonds issued by the School District for renovations completed in the past and two bank term-loans. The School District also had $38,542 of deferred compensation outstanding and $113,961 of compensated absences outstanding. The state allows districts to issue general obligation debt up to 15% of the assessed value of all taxable property within the School District's boundaries. The School District is under this limit by a considerable amount.

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

The School District's budget for the 2019 fiscal year project total revenues of $3,803,002 and total expenses of $3,964,245, for a total budgeted decline in fund balance of $161,243. With projected declines in revenues, the School District continues to work to balance its expenditures while provide excellent education to the District it serves.

REQUESTS FOR INFORMATION

If you have any questions about this report or need additional information, contact the Business Manager's office at:

Bessemer Area Schools
301 E. Sellar Street
Bessemer, Michigan 49911
(906) 667-0802

BASIC FINANCIAL STATEMENTS

Bessemer Area Schools
Statement of Net Position
June 30, 2018

ASSETS		
Current Assets		
Cash and Investments	$	476,125
Due from Other Governments		596,842
Accounts Receivable		102
Inventories		12,752
Total Current Assets		1,085,821
Noncurrent Assets		
Capital Assets being Depreciated, Net		2,017,478
Total Assets		3,103,299
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related Deferred Outflows		1,022,198
OPEB Related Deferred Outflows		106,921
Total Deferred Outflows of Resources		1,129,119
LIABILITIES		
Current Liabilities		
Accounts Payable		76,376
Accrued Salaries & Related Liabilities		336,243
Accrued Interest Payable		2,086
Current Portion of Long-term Debt		177,543
Total Current Liabilities		592,248
Noncurrent Liabilities		
Long-term Debt		170,683
Compensated Absences		152,503
Net Pension Liability		5,596,843
Net Opeb Liability		1,911,240
Total Liabilities		8,423,517
DEFERRED INFLOWS OF RESOURCES		
Pension Related Deferred Inflows		567,335
OPEB Related Deferred Inflows		64,614
Total Deferred Inflows of Resources		631,949
NET POSITION		
Net Investment in Capital Assets		1,669,252
Restricted for:		
Debt Service		22,019
Food Service		10,565
Unrestricted		(6,524,884)
Total Net Position	$	**(4,823,048)**

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

		Program Revenues			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Net (Expense) Revenue**
Governmental Activities:					
Instruction	$ 2,363,800	$ 8,702	$ 261,614	$ --	$ (2,093,484)
Supporting Services	1,236,126	--	46,562	--	(1,189,564)
Food Services	179,163	49,850	139,878	--	10,565
Athletics	134,251	56,290	--	--	(77,961)
Depreciation (unallocated)	183,954	--	--	--	(183,954)
Interest on Long-term Debt	23,676	--	--	--	(23,676)
Total	$ 4,120,970	$ 114,842	$ 448,054	$ --	$ (3,558,074)

General Purpose Revenues:	
Property Taxes	700,928
State Sources	3,117,827
Investment Income	1,035
Total General Revenues	3,819,790
Change in Net Position	**261,716**
Net Position at Beginning of Period (Restated, Note J)	(5,084,764)
Net Position at End of Period	$ **(4,823,048)**

Bessemer Area Schools
Balance Sheet
Governmental Funds
June 30, 2018

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Investments	$ 439,799	$ 36,326	$ 476,125
Due from Other Governments	596,842	--	596,842
Accounts Receivable	102	--	102
Inventories	10,326	2,426	12,752
Total Assets	**$ 1,047,069**	**$ 38,752**	**$ 1,085,821**
LIABILITIES			
Accounts Payable	$ 76,376	$ --	$ 76,376
Accrued Salaries & Related Liabilities	330,075	6,168	336,243
Total Liabilities	406,451	6,168	412,619
FUND BALANCE			
Nonspendable	10,326	2,426	12,752
Restricted	--	30,158	30,158
Assigned	445,000	--	445,000
Unassigned	185,292	--	185,292
Total Fund Balance	640,618	32,584	673,202
Total Liabilities and Fund Balance	**$ 1,047,069**	**$ 38,752**	**$ 1,085,821**

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

Total Fund Balance - Governmental Funds	$	673,202
General government capital assets of $11,048,243, net of accumulated depreciation of $9,030,765, are not financial resources, and accordingly are not reported in the funds.		2,017,478
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. This amount represents the sum of bonds payable, compensated absences, and other loans payable and liabilities.		(500,729)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.		(5,141,980)
Accrued interest is not due and payable in the current period and, therefore, is not reported in the funds.		(2,086)
The net OPEB liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.		(1,868,933)
Total Net Position - Governmental Funds	$	**(4,823,048)**

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

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property Taxes	$ 548,057	$ 152,871	$ 700,928
Food Services	--	41,115	41,115
Athletics	56,290	--	56,290
State Sources	3,209,366	8,735	3,218,101
Federal Sources	170,075	139,878	309,953
Investment Income	440	595	1,035
Other	55,264	--	55,264
Total Revenues	4,039,492	343,194	4,382,686
Expenditures			
Instruction	2,469,323	--	2,469,323
Supporting Services	1,236,126	--	1,236,126
Food Services	--	179,163	179,163
Athletics	134,251	--	134,251
Capital Outlay	83,246	--	83,246
Debt Service - Principal	47,143	135,000	182,143
Debt Service - Interest	14,462	10,378	24,840
Total Expenditures	3,984,551	324,541	4,309,092
Excess of Revenues Over (Under) Expenditures	**54,941**	**18,653**	**73,594**
Fund Balance at Beginning of Period	585,677	13,931	599,608
Fund Balance at End of Period	**$ 640,618**	**$ 32,584**	**$ 673,202**

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

Bessemer Area Schools
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	$	73,594
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds, the interest expenditure is reported when due.		1,164
Repayment of long-term debt principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net position.		182,143
Some expenses, such as compensated absences, reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		20,683
The statement of net position reports the net pension liability and pension related deferrals related to the net pension liability as pension expense. However, the expenditures recorded on the governmental funds equals actual pension contributions.		44,105
The funds report capital outlays as expenditures, however, in the statement of activities, the costs of those assets are allocated over their useful lives as depreciation expense. $183,954 is the amount of current year depreciation, netted against $83,246 of capital outlay.		(100,708)
The statement of net position reports the net OPEB liability and OPEB related deferrals related to the net OPEB liability as OPEB expense. However, the expenditures recorded on the governmental funds equals actual OPEB contributions.		40,735
Changes in Net Position - Governmental Funds	$	**261,716**

Bessemer Area Schools
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Private Purpose Trust
	Activity Fund
ASSETS	
Cash and Investments	$ 87,830
Total Assets	87,830
LIABILITIES	
Due to Student Groups	87,830
Total Liabilities	$ 87,830

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

NOTES TO THE FINANCIAL STATEMENTS

Note A - Summary of Significant Accounting Policies

The financial statements of Bessemer Area Schools, Gogebic County, Michigan (the "School District") have been prepared as prescribed by the Michigan Department of Education. These policies are in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies.

Reporting Entity

In conformity with generally accepted accounting principles, other autonomously operated governmental organizations are not considered to be part of the School District entity for financial reporting purposes. The criteria established for determining the various governmental organizations to be included in the School District's financial statements include oversight responsibility, scope of public service and special financing relationships. Based upon the application of these criteria, the financial statements of the School District contain all the funds controlled by the School District's Board of Education as no other entity meets the criteria to be considered a blended component unit or a discretely presented component of the School District nor is the School District a component unit of another entity.

Basis of Presentation

District-wide Financial Statements

The district-wide financial statements (statement of net position and statement of activities) report information on all of the activities of the School District except for the fiduciary activities. All of the School District activities are considered to be governmental activities. Interfund activity, including operating transfers between activities and amounts due to and from governmental activities, have been eliminated in the School District-wide statements.

Fund-based Financial Statements

Separate financial statements are provided on the basis of funds, each of which is considered a separate fiscal and accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise assets, liabilities, fund equity, revenues and expenditures. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Governmental as well as fiduciary funds are provided. The various fund types are grouped in the financial statements as major funds or nonmajor funds. The School District reports the general fund as a major fund.

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

All other governmental funds are considered to be nonmajor. They include:

The ***food service fund***, a special revenue fund, is used by the School District to account for food service activities. Funding is received primarily from charges for meals and federal operating grants.

The ***2003 refunding bonds fund***, a debt service fund, is used to account for the payment of principal and interest on the 2003 refunding bonds. Funding is received primarily from a voter-approved debt service millage.

In addition, the School District reports an ***agency fund*** that is used to account for assets held by the School District in its capacity as a receiving and paying agent for student body activity groups.

Basis of Accounting

District-wide Financial Statements

The district-wide financial statements report all financial and capital assets, short and long-term liabilities, revenues, expenses, gains and losses using the economic resources measurement focus and the accrual basis of accounting. All revenue is recorded when earned and expenses are recorded when a liability is incurred.

The statement of activities reports net cost information based on the School District's functions. Direct expenses are listed by function with program revenues for each function offset against those expenses. Program revenues include charges for services that are fees and other charges to the users or recipients of the services the School District provides. Program revenues also include operating grants and contributions that are restricted for a particular purpose. Property taxes, unrestricted state aid, and other revenues that are not program revenues are reported as general revenues.

Fund-based Financial Statements

The governmental funds and fiduciary funds are accounted for by using the modified accrual basis of accounting as required by the Michigan Department of Education. Under the modified accrual basis of accounting, revenue is recognized when the revenue is subject to accrual, eligibility requirements are met, and the revenues are available to finance expenditures of the fiscal period. Revenue is considered available when the revenue has been collected in the current period or soon enough after the end of the period to be used to pay current period liabilities. The School District considers revenues to be available if collected within 60 days of the end of the period. Expenditures are recorded when the related liability is incurred. Exceptions to this general rule include certain compensated absences and principal and interest on long-term debt, both of which are recognized when due. Property taxes are recognized in the fiscal year for which the taxes have been levied.

Property Taxes

Property taxes attach as an enforceable lien on property as of December 31. School taxes are levied on the ensuing July 1, with summer collections due by August 15 and winter collections due by February 14 annually from the respective governmental units. Current property taxes are collected for the School District by the City of Bessemer and Township of Bessemer. Delinquent real property taxes of the School District are purchased annually by the County of Gogebic.

State Foundation Revenue

The State of Michigan follows a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information regarding average pupil membership supplied by the districts. The funds received in July and August of 2018 are State appropriations for the year ended June 30, 2018, and, as such, are recorded as accounts receivable.

State Categorical Revenue

The School District receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

Federal Revenue

Expenditure-driven grants are recognized as revenue when revenue is available, the qualifying expenditures have been incurred, and all other grant requirements have been met.

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.

- 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.

Interfund Balances

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other finds" or "due to other funds" on the balance sheet.

Inventories

Inventories are stated at cost and consist principally of supplies and heating fuel. Inventories are recorded as expenditures when consumed rather than when purchased.

Capital Assets

Capital assets include land and improvements, buildings, furniture and fixtures, equipment, school buses and vehicles and are reported in the district-wide financial statements. Capital assets are defined by the School District as assets with an acquisition cost of more than $1,000 or betterments totaling $20,000 with an estimated useful life in excess of one year. Assets meeting this criteria are recorded at historical cost or estimated historical costs if the amount is not known. Any donated capital assets are recorded at acquisition value at the date of donation. The costs of capital assets are charged to expense using an annual allocation of depreciation expense. Taking the depreciable cost of an asset and dividing that cost by its estimated useful life calculates the annual expense. The expense is recorded on the district-wide Statement of Activities and included as a direct expense of an identifiable function if the asset's sole purpose can be identified as being for that function. Depreciation expense (unallocated) is the amount of depreciation expense that cannot be charged to any particular function.

The capital assets, excluding land, are depreciated using the straight-line method with a half-year of depreciation taken in the year of acquisition over the following useful lives:

	Years
Buildings and Improvements	20 - 50
Furniture, Fixtures, and Other Equipment	5 - 20
School Buses and Vehicles	8

Pension

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

Postemployment Benefits Other Than Pensions

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

Deferred 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.

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.

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 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’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.

Compensated Absences

The liability for accumulated sick pay is recorded in the district-wide statement of net position.

Long-term Obligations

Long-term debt is recognized as a liability in the district-wide financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

Fund Equity

In the fund financial statements fund balance is presented in five possible categories, each of which identifies the extent to which the School District is bound to honor constraints on the specific purpose for which the amounts can be spent:

Nonspendable – amounts which cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained directly. The School District reports inventories and prepaid expenditures as nonspendable fund balances.

Restricted – amounts that have constraints placed on their use by an external party or constitutional provisions or enabling legislation (e.g. grants, contributions, specific fee mandates).

Committed – amounts that are committed for specific purposes by the Board of Education, as the School District's highest level of decision-making authority, pursuant to constraints imposed by formal actions taken, such as a majority vote or resolution. These committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specific use through the same type of formal action taken to establish the commitment. Committed fund balance does not lapse at year end.

Assigned – amounts that are constrained by the District Administrator to be used for specific purposes, but are neither restricted nor committed. Assigned fund balance does not lapse at year end.

Unassigned – amounts that are available for any purpose. The general fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Designations of fund balance represent tentative management plans that are subject to change. It is the School District's policy to first use restricted resources when both restricted and unrestricted net position or fund balances are available. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first (when appropriate), followed in order by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

Use of Estimates

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

Subsequent Events

Subsequent events have been evaluated through October 22, 2018, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would have a significant effect on the financial condition of the School District as of the aforementioned date.

Note B - Stewardship, Compliance and Accountability

Budgets - The School District follows these procedures in establishing the budgetary data reflected in the financial statements for the general fund and special revenue fund.

- Prior to July 1, the School District Administrator and Business Manager submit, to the Board of Education, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is held to obtain taxpayer comments.
- Prior to July 1, the budget is legally enacted at a regular meeting by Board approval.
- Any revisions to the budgeted amounts must be approved by the Board.
- Budgets for the general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles. These budgets lapse at the end of each year.
- Budgeted amounts presented in the financial statements are as originally adopted, or as amended, by the Board prior to June 30.

Public Act 621 of 1978 Disclosures - Public Act 621 of 1978 requires local units of government to prepare and to monitor their fiscal year budgets in accordance there with. The Act provides that a school district must amend its budget if it becomes apparent that the school district’s actual revenues will deviate from those budgeted, or if the school district’s expenditures will exceed the amounts appropriated.

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

Function	Amended Budget	Actual	Variance
Guidance Services	44,728	46,076	(1,348)
Technology	95,093	95,651	(558)
Board of Education	23,557	23,876	(319)
Executive Administration	153,861	154,504	(643)
Secondary Office	185,592	185,960	(368)
Fiscal Services	7,970	8,050	(80)
Operations & Maintenance	488,946	494,524	(5,578)

Note C - Cash and Investments

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

Statement of Net Position	
Cash and Investments	$ 476,125
Statement of Fiduciary Assets and Liabilities	
Cash and Investments	87,830
Total Deposits and Investments	$ 563,955
Deposits and Investments	
Checking and Savings Accounts	$ 540,980
Investments in Mutual Funds and Similar Vehicles	7,809
Certificates of Deposit	15,166
Total	$ 563,955

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, $181,417 of the School District's bank balance of $612,379 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.

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

Mutual Funds	$	7,809
Certificates of Deposit		15,166
	$	22,975

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	$ 22,975

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
No maturity	$ -	$ 7,809
Due Within One Year	2,000	-
Due in 1-5 Years	13,166	-
	$ 15,166	$ 7,809

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 percentage of the total investment portfolio. All investments held at year end are reported above.

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 measurement of cash equivalents was as follows:

	Level 1	Level 2	Level 3	Fair Value
Type				
Mutual Funds	$ -	$ 7,809	$ -	$ 7,809

Note D - Long-term Liabilities

Long-term liability balances and activity for the year ended June 30, 2018 were as follows:

	June 30, 2017	Additions	Reductions	June 30, 2018	Due Within One Year
2012 Term Loan	$ 183,750	$ -	$ 35,000	$ 148,750	$ 35,000
2013 Term Loan (Roof)	81,619	-	12,143	69,476	12,543
2003 Refunding Bonds	265,000	-	135,000	130,000	130,000
Deferred Compensation	44,945	17,103	23,506	38,542	-
Compensated Absences	128,242	-	14,281	113,961	-
Total Long-term Debt	$ 703,555	$ 17,103	$ 219,930	$ 500,728	$ 177,543

The deferred compensation and compensated absences will be paid by the general fund and food service fund. The 2003 Refunding Bonds will be paid by the debt service fund.

2012 Term Loan

The School District renegotiated the revolving credit line with Gogebic Range Bank to a long-term note payable on June 30, 2012. Quarterly payments are due in the amount of $8,750 plus interest of 2.5%, beginning October 30, 2012. The loan will mature in 2022.

2013 Term Loan

The School District borrowed $125,000 during the year ended June 30, 2014 in order to repair the roof at the high school. Quarterly loan payments commenced December 31, 2013, and the interest rate on the loan is 2.75%. The loan will mature in 2023.

2003 Refunding Bonds

On August 4, 2003, the School District issued $2,380,000 of 2003 Refunding Bonds to refund the 1993 School Building and Site Bonds. The bonds are unlimited general tax obligations of the School District and bear interest rates of 2.0% to 3.75%. An interest only payment is made November 1 with another principal and interest payment payable each May 1 through 2019.

The aggregate amounts of long-term debt principal and interest maturities (excluding deferred compensation, compensated absences, and net pension / OPEB liability) for the five years ending June 30, 2023, and in five-year increments after until maturity are:

	Principal		Interest		Total	
2019	$	177,543	$	9,984	$	187,527
2020		47,892		3,887		51,779
2021		48,250		2,653		50,903
2022		48,618		1,410		50,028
2023		25,923		282		26,205
Totals:	$	348,226	$	18,216	$	366,442

Compensated Absences - Compensated absences consist of amounts due to employees for unused accumulated sick leave upon termination of their employment. Members of the teachers' union can accumulate up to 155 days of sick leave and will be paid $42.50 per day for unused sick leave upon resignation and $85 per day for unused sick leave upon retirement. Members of the local AFSCME union can accumulate up to 140 days and will be paid $40 per day upon termination or $60 per day upon retirement. The District administrator; a former principal and business manager will be paid $100 (or $50 per day if terminated for cause) $110 (or $55 per day if terminated for cause) and $75, respectively, upon retirement per accumulated sick day up to a maximum of 132 days for the District administrator and 150 days for a former principal and business manager upon termination of employment.

Following is a summary of compensated absences due at June 30, 2018:

Teachers Union & School Administrators	$	98,461
AFCME Union		15,500
	$	113,961

Deferred Compensation - Deferred compensation consists of early retirement incentives that the School District negotiated with several teachers. Future payments for hospitalization for retired teachers to age 65 total $38,542.

Note E - Capital Assets

Capital assets balances and activity for the year ended June 30, 2018 were as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets:				
Buildings and Improvements	$ 9,774,151	$ -	$ -	$ 9,774,151
Equipment	684,007	-	-	684,007
Furniture and Fixtures	153,381	-	-	153,381
School Buses and Vehicles	353,458	83,246	-	436,704
Total Capital Assets Being Depreciated	10,964,997	83,246	-	11,048,243
Less Accumulated Depreciation:				
Buildings and Improvements	7,756,257	162,969	-	7,919,226
Equipment	662,647	2,529	-	665,176
Furniture and Fixtures	142,740	1,394	-	144,134
School Buses and Vehicles	285,167	17,062	-	302,229
Total Accumulated Depreciation	8,846,811	183,954	-	9,030,765
Capital Assets, Net	$ 2,118,186	$ (100,708)	$ -	$ 2,017,478

Depreciation expense for the fiscal year ended June 30, 2018 amounted to $183,954. The School District determined that is was impractical to allocate depreciation expense to the various activities as the capital assets serve multiple functions.

Note F - Retirement System

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (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. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at 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.

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:

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

Benefits Provided - Pension

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

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

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 transient 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 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.

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.

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:

	Pension	OPEB
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 $506,577.

The District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total of $168,030.

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 $5,596,843 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 0.02160% which was a decrease of 0.00039% from its proportion measured as of September 30, 2016.

MPSERS (Plan) Non-university Employers	September 30, 2017	September 30, 2016
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	0.02160%	0.02199%
Net pension liability for the School District	$ 5,596,843	$ 5,486,532

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 $470,850.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ 48,640	$ 27,463
Changes of assumptions	613,179	-
Net difference between projected and actual earnings on pension plan investments	-	267,566
Changes in proportion and differences between Employer contributions and proportionate share of contributions	10,199	272,306
Employer contributions subsequent to the measurement date	350,180	-
Total	**$ 1,022,198**	**$ 567,335**

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:

Plan Year Ended September 30	Amount:
2018	$ (7,309)
2019	98,647
2020	35,960
2021	(22,615)

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 $1,911,240 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 0.02158 percent.

MPSERS (Plan) Non-university Employers	September 30, 2017
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	0.02158%
Net other postemployment benefits liability for the School District	$ 1,911,240

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 $127,984.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ -	$ 20,349
Net difference between projected and actual earnings on pension plan investments	-	44,265
Changes in proportion and differences between Employer contributions and proportionate share of contributions	654	-
Employer contributions subsequent to the measurement date	106,267	-
Total	**$ 106,921**	**$ 64,614**

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:

Plan Year Ended September 30		Amount:
2018	$	(15,468)
2019		(15,468)
2020		(15,468)
2021		(15,468)
2022		(2,088)

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 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:

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

*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 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:

Pension		
1% Decrease (Non-Hybrid/Hybrid) 6.5% / 6.0%	**Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 7.5% / 7.0%**	**1% Increase (Non-Hybrid/Hybrid) 8.5% / 8.0%**
$7,290,825	$5,596,843	$4,170,618

***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:

Other Postemployment Benefits		
1% Decrease 6.5%	**Current Discount Rate 7.5%**	**1% Increase 8.5%**
$2,238,614	$1,911,240	$1,633,402

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:

Other Postemployment Benefits		
1% Decrease 6.5%	**Current Healthcare Cost Trend Rate 7.5%**	**1% Increase 8.5%**
$1,618,563	$1,911,240	$2,243,554

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 G - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for the year, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintains reinsurance for claims in excess of $500,000 for each occurrence with the overall maximum coverage being unlimited. The School District has not been informed of any special assessments being required.

The School District's comprehensive general liability coverage is $1,000,000 combined single limit of liability per occurrence and no deductible amount. The workers' disability compensation coverage is based on statutory limits. The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

All risk management activities are accounted for in the general fund and the special revenue fund of the School District. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the School District as of June 30, 2018 will not materially affect the financial condition of the School District. Therefore, the financial statements contain no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Note H – Fund Balances – Governmental Funds

The School District reports fund balance in governmental funds based on the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The following schedule summarizes the School District's components of fund balance as of June 30, 2018:

		Nonmajor Funds		
	General Fund	Food Service Fund	2003 Refunding Bonds	Total
Nonspendable:				
Inventories	$ 10,326	$ 2,426	$ -	$ 12,752
Total Nonspendable	10,326	2,426	-	12,752
Restricted for:				
Debt Service	-	-	22,019	22,019
Food Service	-	8,139	-	8,139
Total Restricted	-	8,139	22,019	30,158
Assigned for:				
Capital Projects and Other Use	180,000	-	-	180,000
Long-term Debt	75,000	-	-	75,000
5% Revenue Reserve	190,000			190,000
Total Assigned	445,000	-	-	445,000
Unassigned	185,292	-	-	185,292
Total Fund Balances - Governmental Funds	$ 640,618	$ 10,565	$ 22,019	$ 673,202

Note I - 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 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.

Note J - 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 Pension*s.

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:

Net position - July 1, 2017 - As previously reported	$	(3,175,096)
Adoption of GASB Statement 75:		
Net other post employment benefit liability		(2,015,935)
Deferred outflows		106,267
Net position - July 1, 2017 - As restated	$	(5,084,764)

REQUIRED SUPPLEMENTARY INFORMATION

Bessemer Area Schools
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Variance Positive (Negative)
	Original	**Final**	**Actual**	**Final to Actual**
Revenues				
Property Taxes	$ 522,617	$ 548,140	$ 548,057	$ (83)
Athletics	51,672	56,294	56,290	(4)
State Sources	3,188,191	3,180,802	3,209,366	28,564
Federal Sources	166,954	158,454	170,075	11,621
Investment Income	500	426	440	14
Other	52,762	55,264	55,264	--
Total Revenues	3,982,696	3,999,380	4,039,492	40,112
Expenditures				
Instruction				
Elementary	988,571	912,683	904,701	7,982
Secondary	1,002,161	964,570	956,383	8,187
Special Education	291,428	298,945	298,943	2
Title I	105,463	105,463	105,462	1
At Risk	159,974	159,954	159,878	76
Small Rural Grant	17,585	17,585	17,585	--
Title IIA	16,371	16,371	16,371	--
Total Instruction	2,581,553	2,475,571	2,459,323	16,248
Supporting Services				
Title IV	10,000	10,000	10,000	--
Guidance Services	45,890	44,728	46,076	(1,348)
Health Services	200	98	98	--
Technology	100,733	95,093	95,651	(558)
Board of Education	29,080	23,557	23,876	(319)
Executive Administration	155,488	153,861	154,504	(643)
Elementary Office	82,335	82,941	82,938	3
Secondary Office	187,478	185,592	185,960	(368)
Fiscal Services	7,964	7,970	8,050	(80)
Operation & Maintenance	470,425	488,946	494,524	(5,578)
Pupil Transportation	137,317	147,202	144,449	2,753
Total Supporting Services	1,226,910	1,239,988	1,246,126	(6,138)
Athletics	139,266	134,555	134,251	304
Capital Outlay	83,246	83,246	83,246	--
Debt Service	62,534	61,605	61,605	--
Total Expenditures	4,093,509	3,994,965	3,984,551	10,414
Excess (Deficiency) of Revenues and Over Expenditures	(110,813)	4,415	54,941	50,526
Net Change in Fund Balance	**(110,813)**	**4,415**	**54,941**	**50,526**
Fund Balance at Beginning of Period	585,677	585,677	585,677	--
Fund Balance at End of Period	**$ 474,864**	**$ 590,092**	**$ 640,618**	**$ 50,526**

Bessemer Area Schools
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)

	2017	2016	2015	2014
School District's Portion of Net Pension Liability (%)	0.02160%	0.02199%	0.02279%	0.02373%
School District's Proportionate Share of Net Pension Liability	$ 5,596,843	$ 5,486,532	$ 5,565,274	$ 5,226,389
School District's Covered Payroll	$ 1,807,446	$ 1,795,779	$ 1,797,173	$ 1,892,852
School District's Proportionate Share of Net Pension Liability as a Percentage of its Covered Payroll	309.65%	305.52%	309.67%	276.11%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	64.21%	63.27%	63.17%	66.20%

Bessemer Area Schools
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)

	2018	2017	2016	2015
Statutorily Required Contributions	$ 506,577	$ 437,065	$ 429,061	$ 423,352
Contributions in Relation to Statutorily Required Contributions	506,577	437,065	429,061	423,352
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
School District's Covered Payroll	$ 1,817,383	$ 1,795,779	$ 1,797,173	$ 1,892,852
Contributions as a Percentage of Covered Payroll	27.87%	24.34%	23.87%	22.37%

Bessemer Area Schools
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)

	2017
School District's Portion of Net OPEB Liability (%)	0.02158%
School District's Proportionate Share of Net OPEB Liability	$ 1,911,240
School District's Covered Payroll	$ 1,807,446
School District's Proportionate Share of Net OPEB Liability as a Percentage of its Covered Payroll	105.74%
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	0.00%

Bessemer Area Schools
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)

	2018
Statutorily Required Contributions	$ 168,030
Contributions in Relation to Statutorily Required Contributions	168,030
Contribution Deficiency (Excess)	$ -
School District's Covered Payroll	$ 1,817,383
Contributions as a Percentage of Covered Payroll	9.25%

Combining and Individual Fund Statements and Schedules

Bessemer Area Schools
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

	Special Revenue	Debt Service	
	Food Service	**2003 Refunding Bonds**	**Total Nonmajor Governmental Funds**
ASSETS			
Cash and Investments	$ 14,307	$ 22,019	$ 36,326
Inventories	2,426	--	2,426
Total Assets	**$ 16,733**	**$ 22,019**	**$ 38,752**
LIABILITIES			
Accrued Salaries and Related Liabilities	$ 6,168	$ --	$ 6,168
Total Liabilities	6,168	--	6,168
FUND BALANCE			
Nonspendable	2,426	--	2,426
Restricted	8,139	22,019	30,158
Total Fund Balance	10,565	22,019	32,584
Total Liabilities and Fund Balance	**$ 16,733**	**$ 22,019**	**$ 38,752**

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

	Special Revenue	Debt Service	
	Food Service	**2003 Refunding Bonds**	**Total Nonmajor Governmental Funds**
Revenues			
Property Taxes	$ --	$ 152,871	$ 152,871
Food Services	41,115	--	41,115
State Sources	8,735	--	8,735
Federal Sources	139,878	--	139,878
Investment Income	--	595	595
Total Revenues	189,728	153,466	343,194
Expenditures			
Food Services	179,163	--	179,163
Debt Service - Principal	--	135,000	135,000
Debt Service - Interest	--	10,378	10,378
Total Expenditures	179,163	145,378	324,541
Excess of Revenues Over (Under) Expenditures	10,565	8,088	18,653
Net Change in Fund Balance	**10,565**	**8,088**	**18,653**
Fund Balance at Beginning of Period	--	13,931	13,931
Fund Balance at End of Period	**$ 10,565**	**$ 22,019**	**$ 32,584**

Bessemer Area Schools
Statement of Changes in Fiduciary Assets and Liabilities - Fiduciary Fund
For the Year Ended June 30, 2018

	Balance at July 1, 2017	Additions	Reductions	Balance at June 30, 2018
Asset - Cash and Investments	$ 98,174	$ 86,217	$ 96,561	$ 87,830
Liability - Due to Student Groups	$ 98,174	$ 86,217	$ 96,561	$ 87,830

GABRIDGE & CO

3940 PENINSULAR DR SE, SUITE 130 / GRAND RAPIDS, MI / 49546-2442 / P 616 538 7100 / F 616 538 2441 / WWW.GABRIDGECO.COM

October 22, 2018

To the President and Members of the Board of Education
Bessemer Area Schools
Bessemer, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bessemer Area Schools (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 July 20, 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 A to the financial statements. The School District adopted GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as seen in note A, F, and J during the fiscal year ended June 30, 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Estimates have been used to calculate the net pension liability and the net other postemployment benefit liability.

- 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 amounts to be recognized for compensated absences.

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 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, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the 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 22, 2018.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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,

Gabridge & Company

Gabridge & Company, PLC
Grand Rapids, MI

3940 PENINSULAR DR SE, SUITE 130 / GRAND RAPIDS, MI / 49546-2442 / P 616 538 7100 / F 616 538 2441 / WWW.GABRIDGECO.COM

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

October 22, 2018

To the President and Members of the Board of Education
Bessemer Area Schools
Bessemer, 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 Bessemer Area Schools (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's basic financial statements and have issued our report thereon dated October 22, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School'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's internal control. Accordingly, we do not express an opinion on the effectiveness of Bessemer Area School'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and response that we consider to be significant deficiencies. (2018-1 and 2018-2)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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*.

The School's Response to Findings

The School's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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, and is intended solely for the use of management, the Board of Education, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Best regards,

Gabridge & Company

Gabridge & Company, PLC
Grand Rapids, MI
October 22, 2018

Significant Deficiency

2018-1 - Segregation of Incompatible Duties

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the School District. A key element of internal control is the segregation of incompatible duties within the accounting function.

Condition/Finding: The School District has accounting functions which are performed by the same individual and are not subject to a documented independent review and approval. These areas include cash reconciliation, payroll, accounts receivable, and accounts payable transactions.

Cause: This condition is a result of the limited size of the School District's accounting staff.

Effect: As a result of this condition, the School District is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected and corrected by management on a timely basis.

Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials: As a result of limited staffing, we cannot accomplish the desired segregation of duties. Management will provide increased oversight and review of operations to help deter inappropriate actions and potential fraud, as well consider enhanced cash receipting procedures for activities with decentralized cash receipts.

2018-2 – Scholarship Accounts

Criteria:	Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the School District. A key element of internal control is the oversight of the student activity and scholarship accounts.
Condition/Finding:	The School District has several scholarships that it maintains. In discussing scholarship funds in the student activities account, it was noted that some of the scholarships are not dispersing the funds from the actual certificates of deposit of the scholarship, but are dispersing funds from the student activities checking account. It isn't clear if the certificate of deposit accounts are jointly owned by the donor and the district or if they are owned by the district alone. As a result, the certificate of deposit accounts could potentially be cashed by the donor and the District could potentially lose the amount that they distributed from the scholarships.
Cause:	This condition is a result of the limited size of the School District's accounting staff and control of the scholarship funds, as well as lack of documentation of the scholarship agreements.
Effect:	As a result of this condition, the School District is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected and corrected by management on a timely basis.
Recommendation:	We recommend that the Business Manager and the Superintendent review the scholarship accounts and terms.
View of Responsible Officials:	Management agrees with finding and will review the scholarship accounts and terms during the current fiscal year.