
Riverside School - Hagar Township #6

**Financial Report
with Supplemental Information
June 30, 2018**

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Independent Auditor's Report

To the Board of Education
Riverside School - Hagar Township #6

Report on the Financial Statements

We have audited the accompanying basic financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Riverside School - Hagar Township #6 (the "School District") as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise Riverside School - Hagar Township #6'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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Riverside School - Hagar Township #6 as of June 30, 2018 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the basic financial statements, as of July 1, 2017, the School District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The School District's unrestricted net position has been restated as of July 1, 2017 as a result of this change in accounting principle. Our opinion is not modified with respect to this matter.

To the Board of Education
Riverside School - Hagar Township #6

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the major fund budgetary comparison schedule, and the pension and OPEB system schedules of funding progress and employer contributions 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, which 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 supplemental 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2018 on our consideration of Riverside School - Hagar Township #6's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Riverside School - Hagar Township #6's internal control over financial reporting and compliance.



October 25, 2018

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of Education
Riverside School - Hagar Township #6

We have audited, 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, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Riverside School - Hagar Township #6 (the "School District") as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District'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 a certain deficiency in internal control, as described below that we consider to be a significant deficiency.

A control deficiency 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 significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the control deficiency that follows to be a significant deficiency in internal control over financial reporting. During our audit testing, we noted that bank reconciliations were not performed timely throughout the year; thus, the School District could not reconcile the bank balance to its internal recorded balance in a timely manner, which is a reoccurring internal control deficiency from previous years. We recommend that the School District prepare bank reconciliations monthly. A review should be performed of these reconciliations to verify that the period ending cash balances and activity reconcile to the general ledger. The reconciliations should be prepared and reviewed in a timely manner by appropriate personnel.

To Management and the Board of Education
Riverside School - Hagar Township #6

Compliance and Other Matters

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

The School District's Response to the Findings

The School District's response to the findings identified in our audit indicated that the responsible parties within the School District will continue to work to correct this area of internal control for the 2018-2019 fiscal year and beyond by getting the appropriate individuals involved to prepare and review bank reconciliations in a timely manner. The School District will continue to work with the Regional Education Service Agency in the 2018-2019 fiscal year to ensure that timeliness of the bank reconciliation preparation and review process is improved. The School District'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 School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

October 25, 2018

This section of Riverside School - Hagar Township #6's (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2018. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those financial statements. These statements are organized so the reader can understand Riverside School - Hagar Township #6 financially as a whole. The government-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term, as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's funds - the General Fund and the special revenue fund. This report is composed of the following elements:

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

Required Supplemental Information

Budgetary Information for Major Fund

Schedules of the School District's Proportionate Share of the Net Pension and OPEB Liabilities

Schedules of Pension and OPEB Contributions

Other Supplemental Information

Reporting the School District as a Whole - Government-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the School District's net position - the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, as reported in the statement of net position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net position and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Riverside School - Hagar Township #6

Management's Discussion and Analysis (Continued)

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the School District's individual funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. The School District also establishes funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

Governmental Funds

Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation.

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. The following table provides a summary of the School District's net position as of June 30, 2018 and 2017:

	Governmental Activities	
	2018	2017
	(in thousands)	
Assets		
Current and other assets	\$ 409.6	\$ 328.9
Capital assets	29.3	33.4
Total assets	438.9	362.3
Deferred Outflows of Resources	225.4	140.1
Liabilities		
Current liabilities	69.2	71.1
Net pension liability	922.2	895.9
Net OPEB liability	314.0	-
Total liabilities	1,305.4	967.0
Deferred Inflows of Resources	102.1	30.3
Net Position		
Net investment in capital assets	29.3	-
Unrestricted	(772.5)	(494.9)
Total net position	\$ (743.2)	\$ (494.9)

The above analysis focuses on net position. The change in net position of the School District's governmental activities is discussed below. The School District's net position was \$(743.2) thousand at June 30, 2018. Net investment in capital assets totaling \$29.3 thousand compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. The remaining amount of net position (\$(772.5) thousand) was unrestricted.

Riverside School - Hagar Township #6

Management's Discussion and Analysis (Continued)

The (\$772.5) thousand in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the condensed statement of activities below, which shows the changes in net position for the years ended June 30, 2018 and 2017.

	Governmental Activities	
	2018	2017
	(in thousands)	
Revenue		
Program revenue:		
Charges for services	\$ 1.4	\$ 2.9
Operating grants	82.1	124.8
General revenue:		
Taxes	91.9	95.4
State aid not restricted to specific purposes	569.9	498.0
Other	10.9	13.9
Total revenue	<u>756.2</u>	<u>735.0</u>
Expenses		
Instruction	501.0	457.4
Support services	147.8	154.2
Food services	33.9	28.4
Depreciation expense (unallocated)	4.1	4.9
Total expenses	<u>686.8</u>	<u>644.9</u>
Change in Net Position	69.4	90.1
Net Position - Beginning of year, as previously reported	(494.9)	(585.0)
Cumulative Effect of Change in Accounting Principle	<u>(317.7)</u>	<u>-</u>
Net Position - Beginning of year	<u>(812.6)</u>	<u>(585.0)</u>
Net Position - End of year	<u>\$ (743.2)</u>	<u>\$ (494.9)</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$686.8 thousand. Certain activities were partially funded from those who benefited from the programs (\$1.4 thousand) or by other governments and organizations that subsidized certain programs with grants and contributions (\$82.1 thousand). We paid for the remaining "public benefit" portion of our governmental activities with \$91.9 thousand in taxes, \$569.9 thousand in state foundation allowance, and with our other revenue.

As required by the Governmental Accounting Standards Board (GASB), the School District adopted GASB Statement No. 75. This standard required the inclusion of the School District's proportionate share of the Michigan Public School Employees' Retiree Health Care Plan within the School District's financial statements, effective July 1, 2017. The effect of the adoption was to decrease July 1, 2017 beginning net position by \$317.7 thousand and to include the net OPEB obligation and related deferred inflows and outflows of resources in the June 30, 2018 financial statements. All governments participating in the plan were required to adopt this new standard.

The School District experienced a increase in net position of \$69.4 thousand.

Riverside School - Hagar Township #6

Management's Discussion and Analysis (Continued)

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$340.4 thousand, which is an increase of \$107.5 thousand from last year.

In the General Fund, our principal operating fund, the fund balance increased by \$108.7 thousand to \$330.1 thousand. The General Fund fund balance is available to fund costs related to allowable school operating purposes.

The fund balance of our special revenue funds decreased from \$11.3 thousand last year to \$10.2 thousand this year.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June 2018. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information in these financial statements.

There were revisions made to the 2017-2018 General Fund original budget. Budgeted revenue was increased by \$125.6 thousand resulting from the School District's revised operating plan due to the fluctuations in state revenue, and budgeted expenditures were increased by \$115.6 thousand due to increases in the instruction programs, which includes increases in salaries and wage expenses.

The School District incurred expenditures in the General Fund, which were in excess of the amounts budgeted for support services - school administration. See Note 3 for further information.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2018, the School District had \$29.3 thousand invested in a broad range of capital assets, including land, buildings, and furniture and equipment, net of accumulated depreciation.

	<u>2018</u>	<u>2017</u>
Land	\$ 2,750	\$ 2,750
Buildings and improvements	132,615	132,615
Furniture and equipment	<u>57,703</u>	<u>57,703</u>
Total capital assets	193,068	193,068
Less accumulated depreciation	<u>163,753</u>	<u>159,671</u>
Total capital assets - Net of accumulated depreciation	<u><u>\$ 29,315</u></u>	<u><u>\$ 33,397</u></u>

We present more detailed information about our capital assets in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2018-2019 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2018-2019 budget was adopted in June 2018 based on an estimate of students who will enroll in September 2018. Approximately 85 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot access additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2018 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2018-2019 budget. Once the final student count and related per pupil funding are validated, state law requires the School District to amend the budget if actual District resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on state funding and the health of the state's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to the School District. The State periodically holds a revenue-estimating conference to estimate revenue. Based on the results of the most recent conference, the State estimates that funds are expected to be sufficient to fund the appropriation.

Contacting the School District's Management

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the business office.

Riverside School - Hagar Township #6

Statement of Net Position

	June 30, 2018
	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents (Note 4)	\$ 292,799
Due from other governments	116,786
Capital assets - Net (Note 6)	<u>29,315</u>
Total assets	438,900
Deferred Outflows of Resources	
Deferred pension costs (Note 9)	207,014
Deferred OPEB costs (Note 9)	<u>18,364</u>
Total deferred outflows of resources	225,378
Liabilities	
Accrued payroll and other liabilities	54,152
Unearned revenue (Note 5)	15,047
Noncurrent liabilities:	
Net pension liability	922,153
Net OPEB liability	<u>314,045</u>
Total liabilities	1,305,397
Deferred Inflows of Resources	
Revenue in support of pension contributions made subsequent to the measurement date (Note 9)	36,269
Deferred pension cost reductions (Note 9)	55,187
Deferred OPEB cost reductions (Note 9)	<u>10,617</u>
Total deferred inflows of resources	<u>102,073</u>
Net Position	
Net investment in capital assets	29,315
Unrestricted	<u>(772,507)</u>
Total net position	<u><u>\$ (743,192)</u></u>

Riverside School - Hagar Township #6

Statement of Activities

Year Ended June 30, 2018

Functions/Programs	Program Revenue			Governmental
	Expenses	Charges for Services	Operating Grants and Contributions	Activities
				Net (Expense) Revenue and Changes in Net Position
Primary government - Governmental activities:				
Instruction	\$ 500,996	\$ -	\$ 50,664	\$ (450,332)
Support services	147,848	-	-	(147,848)
Food services	33,907	1,377	31,397	(1,133)
Depreciation expense (unallocated) (Note 6)	4,082	-	-	(4,082)
Total primary government	<u>\$ 686,833</u>	<u>\$ 1,377</u>	<u>\$ 82,061</u>	(603,395)
General revenue:				
Taxes - Property taxes, levied for general purposes				91,929
State aid not restricted to specific purposes				569,853
Interest and investment earnings				208
Other				10,804
Total general revenue				<u>672,794</u>
Change in Net Position				69,399
Net Position - Beginning of year, as previously reported				(494,894)
Cumulative Effect of Change in Accounting Principle (Note 2)				<u>(317,697)</u>
Net Position - Beginning of year, as restated				<u>(812,591)</u>
Net Position - End of year				<u>\$ (743,192)</u>

Riverside School - Hagar Township #6

**Governmental Funds
Balance Sheet**

June 30, 2018

	General Fund	Nonmajor Fund - Special Revenue - Milk Fund	Total Governmental Funds
Assets			
Cash and cash equivalents (Note 4)	\$ 292,321	\$ 478	\$ 292,799
Due from other governments	112,003	4,783	116,786
Due from other funds (Note 7)	-	4,983	4,983
Total assets	<u><u>\$ 404,324</u></u>	<u><u>\$ 10,244</u></u>	<u><u>\$ 414,568</u></u>
Liabilities			
Due to other funds (Note 7)	\$ 4,983	\$ -	\$ 4,983
Accrued payroll and other liabilities	54,152	-	54,152
Unearned revenue (Note 5)	15,047	-	15,047
Total liabilities	74,182	-	74,182
Fund Balances			
Restricted - Milk Fund	-	10,244	10,244
Unassigned	330,142	-	330,142
Total fund balances	330,142	10,244	340,386
Total liabilities and fund balances	<u><u>\$ 404,324</u></u>	<u><u>\$ 10,244</u></u>	<u><u>\$ 414,568</u></u>

Riverside School - Hagar Township #6

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position

June 30, 2018

Fund Balances Reported in Governmental Funds	\$ 340,386
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
Cost of capital assets	193,068
Accumulated depreciation	<u>(163,753)</u>
Net capital assets used in governmental activities	29,315
Net pension liability and related deferred inflows and outflows	(770,326)
Net OPEB liability and related deferred inflows and outflows	(306,298)
Revenue in support of pension contributions made subsequent to the measurement date is reported as a deferred inflow of resources in the statement of net position and is not reported in the funds	<u>(36,269)</u>
Net Position of Governmental Activities	<u><u>\$ (743,192)</u></u>

Riverside School - Hagar Township #6

Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2018

	<u>General Fund</u>	<u>Nonmajor Fund - Special Revenue - Milk Fund</u>	<u>Total Governmental Funds</u>
Revenue			
Local sources	\$ 102,941	\$ 1,377	\$ 104,318
State sources	618,678	769	619,447
Federal sources	25,050	30,628	55,678
Total revenue	<u>746,669</u>	<u>32,774</u>	<u>779,443</u>
Expenditures			
Current:			
Instruction	491,766	-	491,766
Support services	146,251	-	146,251
Food services	-	33,907	33,907
Total expenditures	<u>638,017</u>	<u>33,907</u>	<u>671,924</u>
Net Change in Fund Balances	108,652	(1,133)	107,519
Fund Balances - Beginning of year	<u>221,490</u>	<u>11,377</u>	<u>232,867</u>
Fund Balances - End of year	<u><u>\$ 330,142</u></u>	<u><u>\$ 10,244</u></u>	<u><u>\$ 340,386</u></u>

Riverside School - Hagar Township #6

Governmental Funds

**Reconciliation of the Statement of Revenue, Expenditures, and Changes in
Fund Balances to the Statement of Activities**

Year Ended June 30, 2018

Net Change in Fund Balance Reported in Governmental Funds	\$ 107,519
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation - Depreciation expense	(4,082)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds until it is available	(24,788)
Revenue in support of pension contributions made subsequent to the measurement date	(8,687)
Some employee costs (pension, OPEB, and compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	(563)
Change in Net Position of Governmental Activities	<u><u>\$ 69,399</u></u>

June 30, 2018

Note 1 - Nature of Business

Riverside School - Hagar Township #6 (the "School District") is a school district in the state of Michigan that provides educational services to students.

Note 2 - Significant Accounting Policies

Accounting and Reporting Principles

Riverside School - Hagar Township #6 follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected three-member Board of Education. In accordance with government accounting principles, there are no separate legal entities appropriate to be reported within these financial statements.

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes, intergovernmental payments, and other items not properly included among program revenue are reported instead as general revenue.

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

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

Fund Accounting

The School District accounts for its various activities in several different funds in order to demonstrate accountability for how it spends certain resources; separate funds allow the School District to show the particular expenditures for which specific revenue is used. The various funds are aggregated into the following fund types:

Governmental Funds

Governmental funds include all activities that provide general governmental services that are not business-type activities. Governmental funds can include the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds. The School District's only major fund is the General Fund, which is the primary operating fund because it accounts for all financial resources used to provide government services other than those specifically assigned to another fund.

Note 2 - Significant Accounting Policies (Continued)

Additionally, the School District reports the following nonmajor governmental fund type:

- Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes. The School District's special revenue fund is the Milk Fund. Revenue sources for the Milk Fund include sales to customer and dedicated grants from state and federal sources. Any operating deficit generated by these activities is the responsibility of the General Fund.

Interfund Activity

During the course of operations, the School District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as amounts due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Furthermore, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenue is not recognized until it is collected, or collected soon enough after the end of the year it is available to pay for obligations outstanding at the end of the year. For this purpose, the School District considers amounts collected within days of year end to be available for recognition. Revenue not meeting this definition is classified as a deferred inflow of resources.

Specific Balances and Transactions

Cash and Investments

Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Note 2 - Significant Accounting Policies (Continued)

Capital Assets

Capital assets, which include land, buildings and improvements, and furniture and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

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

	<u>Depreciable Life - Years</u>
Buildings and improvements	20 to 50 years
Furniture and other equipment	5 to 10 years

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position, when applicable.

Deferred Outflows/Inflows 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 represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then.

The School District reports deferred outflows of resources related to deferred pension and OPEB costs.

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 represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

The School District reports deferred inflows of resources related to revenue in support of pension contributions made subsequent to the measurement date and deferred pension and OPEB plan cost reductions.

Net Position

Net position of the School District is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital.

Net Position Flow Assumption

The School District will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide 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.

Note 2 - Significant Accounting Policies (Continued)

Fund Balance Flow Assumptions

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

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The nonspendable fund balance component represents amounts that are not in spendable form or are legally or contractually required to be maintained intact. Restricted fund balance represents amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose. The School District can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the School District's highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the School District that can, by adoption of an resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

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

Property Tax Revenue

Properties are assessed as of December 31, and the related property taxes become a lien on December 1 of the following year. Tax collections are forwarded to the School District as collected by the assessing municipalities through March 1, at which time they are considered delinquent and added to county tax rolls. Any delinquent taxes collected by the county are remitted to the School District by May 15. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Grants and Contributions

The School District receives federal, state, and local grants as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

Note 2 - Significant Accounting Policies (Continued)

Pension and Other Postemployment Benefit (OPEB) Plans

For the purpose of measuring the net pension and net OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to each plan, and pension and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPERS) and additions to/deductions from the MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expenses when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Tax Abatements

The School District has evaluated tax abatements and considered total property tax abatements to be insignificant.

Adoption of New Accounting Pronouncement

As of July 1, 2017, the School District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the School District to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the Michigan Public School Employees' Retirement System (MPERS). The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

In accordance with the statement, the School District has reported a net OPEB liability of \$331,248, deferred outflows of financial resources for OPEB contributions of \$23,815 made subsequent to the measurement date, and deferred inflows of financial resources for revenue received from state aid in support of OPEB contributions of \$10,264 that was received subsequent to the measurement date as the effects of this change in accounting principles on the School District's net position as of July 1, 2017.

Upcoming Accounting Pronouncement

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2021.

Note 3 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and special revenue fund, except that the budget statement presentation is different from the basic financial statements due to capital outlay being budgeted functionally. All annual appropriations lapse at fiscal year end. The budget document presents information by fund, function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. There were no significant amendments during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders and contracts) are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services are rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the School District incurred expenditures in the General Fund, which were in excess of the amounts budgeted, as follows:

	Budget	Actual
Support services - School administration	\$ -	\$ 70,238

Note 4 - Deposits and Investments

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

The School District has designated two financial institutions for the deposit of its funds.

The School District's cash and cash equivalents are subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At year end, the School District had \$39,073 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The School District believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

June 30, 2018

Note 5 - Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned.

At June 30, 2018, the School District had no unavailable revenue and \$15,047 of unearned revenue, primarily related to grant and categorical aid payment received prior to meeting all eligibility requirements.

Note 6 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

Governmental Activities

	Balance July 1, 2017	Additions	Disposals	Balance June 30, 2018
Capital assets not being depreciated - Land	\$ 2,750	\$ -	\$ -	\$ 2,750
Capital assets being depreciated:				
Buildings and improvements	132,615	-	-	132,615
Furniture and other equipment	57,703	-	-	57,703
Subtotal	190,318	-	-	190,318
Accumulated depreciation:				
Buildings and improvements	104,827	3,447	-	108,274
Furniture and other equipment	54,844	635	-	55,479
Subtotal	159,671	4,082	-	163,753
Net capital assets being depreciated	30,647	(4,082)	-	26,565
Net governmental activities capital assets	\$ 33,397	\$ (4,082)	\$ -	\$ 29,315

Depreciation expense totaling \$4,082 was not charged to activities, as the School District considers its assets to benefit multiple activities and allocation is not practical.

Note 7 - Interfund Receivables and Payables

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Milk Fund	General Fund	\$ 4,983

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Note 8 - Risk Management

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

June 30, 2018

Note 9 - Michigan Public School Employees' Retirement System

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPSERS or the "System"), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. Certain School District employees also receive defined contribution retirement and healthcare benefits through the System. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The System is administered by the Office of Retirement Services (ORS). The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools> or by writing to the Office of Retirement System (ORS) at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Benefits Provided

Benefit provisions of the defined benefit (DB) pension plan and 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 for the defined benefit pension plan and the postemployment healthcare plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of services times a pension factor ranging from 1.25 percent to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Depending on the member's date of hire, MPSERS offers the option of participating in the defined contribution (DC) plan that provides a 50 percent employer match (up to 3 percent of salary) on employee contributions.

Members are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100 percent of the participant's final average compensation, with an increase of 2 percent each year thereafter.

Benefits may transfer to a beneficiary upon death and are determined in the same manner as retirement benefits, but with an actuarial reduction.

Benefit terms provide for annual cost of living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. Some members who do not receive an annual increase are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

MPSERS provides medical, prescription drug, dental, and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by MPSERS with the balance deducted from the monthly pension of each retiree healthcare recipient. Depending on the member's date of hire, this subsidized portion ranges from 80 percent to the maximum allowed by the statute.

June 30, 2018

Note 9 - Michigan Public School Employees' Retirement System (Continued)

Contributions

Public Act 300 of 1980, as amended, required the School District to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by state statute and may be amended only by action of the state Legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

Under the OPEB plan, retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits. Participating employers are required to contribute at that rate.

Under Public Act 300 of 2012, members were given the choice between continuing the 3 percent contribution to the retiree health care and keeping the premium subsidy benefit described above, or choosing not to pay the 3 percent 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 percent employee contribution into their 457 account as of their transition date, earning them a 2 percent employer match into a 401(k) account. Members who selected this option stop paying the 3 percent contribution to the retiree health care as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

The School District's contributions are determined based on employee elections. There are multiple different pension and healthcare benefit options included in the plan available to employees based on date of hire and the elections available at that time. Contribution rates are adjusted annually by the ORS.

The range of rates is as follows:

	Pension	OPEB
October 1, 2017 - January 31, 2018	13.54% - 17.89%	7.42% - 7.67%
February 1, 2018 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%

Depending on the plan selected, member pension contributions range from 0 percent up to 7.0 percent of gross wages. For certain plan members, a 4 percent employer contribution to the defined contribution pension plan is required. In addition, for certain plan members, a 3 percent employer match is provided to the defined contribution pension plan.

The School District's required and actual pension contributions to the plan for the year ended June 30, 2018 were \$102,221, which include the School District's contributions required for those members with a defined contribution benefit. The School District's required and actual pension contributions include an allocation of \$36,269 in revenue received from the State of Michigan and remitted to the System to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended June 30, 2018. For the year ended June 30, 2018, the contributions also include a one-time payment to the School District received under Section 147c(2) of the State Aid Act, which the School District then remitted as a contribution to the plan.

The School District's required and actual OPEB contributions to the plan for the year ended June 30, 2018 were \$24,052, which includes the School District's contributions required for those members with a defined contribution benefit.

June 30, 2018

Note 9 - Michigan Public School Employees' Retirement System (Continued)

Net Pension Liability

At June 30, 2018, the School District reported a liability of \$922,153 for its proportionate share of the 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 as of September 30, 2016, which used updated procedures to roll forward the estimated liability to September 30, 2017. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the School District's proportion was 0.003558 percent and 0.003591 percent, respectively.

Net OPEB Liability

At June 30, 2018, the School District reported a liability of \$314,045 for its proportionate share of the net OPEB liability. The net OPEB liability for fiscal year 2018 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 as of September 30, 2016, which used updated procedures to roll forward the estimated liability to September 30, 2017. The School District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the School District's proportion was 0.003546 percent.

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

For the year ended June 30, 2018, the School District recognized pension expense of \$102,955, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 8,014	\$ (4,525)
Changes in assumptions	101,029	-
Net difference between projected and actual earnings on pension plan investments	-	(44,085)
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	19,175	(6,577)
The School District's contributions to the plan subsequent to the measurement date	78,796	-
	<u>207,014</u>	<u>(55,187)</u>
Total	<u>\$ 207,014</u>	<u>\$ (55,187)</u>

The \$36,269 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to the UAAL payment will be recognized as state appropriations revenue for the year ending June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending	Amount
2019	\$ 24,172
2020	37,760
2021	13,935
2022	(2,836)
Total	<u>\$ 73,031</u>

June 30, 2018

Note 9 - Michigan Public School Employees' Retirement System (Continued)

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

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

For the year ended June 30, 2018, the School District recognized OPEB expense of \$21,009.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (3,344)
Net difference between projected and actual earnings on OPEB plan investments	-	(7,273)
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	15	-
Employer contributions to the plan subsequent to the measurement date	18,349	-
Total	\$ 18,364	\$ (10,617)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (note that employer contributions subsequent to the measurement date will reduce the net OPEB liability and, therefore, will not be included in future OPEB expense):

Years Ending	Amount
2019	\$ (2,563)
2020	(2,563)
2021	(2,563)
2022	(2,563)
2023	(350)
Total	\$ (10,602)

Actuarial Assumptions

The total pension liability and total OPEB liability as of September 30, 2017 are based on the results of an actuarial valuation as of September 30, 2016 and rolled forward. The total pension and OPEB liability was determined using the following actuarial assumptions:

Actuarial cost method		Entry age normal cost actuarial cost method
Investment rate of return - Pension	7.00% - 7.50%	Net of investment expenses based on the groups
Investment rate of return - OPEB	7.50%	Net of investment expenses based on the groups
Salary increases	3.50% - 12.30%	
Healthcare cost trend rate	7.50%	Including wage inflation of 3.50 percent
Mortality basis		Year 1 graded to 3.5 percent year 12
		RP2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost of living pension adjustments	3.00%	Annual noncompounded for MIP members

Assumption changes as a result of an experience study for the periods from 2007 to 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

June 30, 2018

Note 9 - Michigan Public School Employees' Retirement System (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00 - 7.50 percent as of September 30, 2017, depending on the plan option. The discount rate used to measure the total OPEB liability was 7.50 percent as of September 30, 2017. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that district contributions will be made at statutorily required rates.

Based on those assumptions, the pension plan's fiduciary net position and the OPEB plan's fiduciary net position were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total OPEB liability.

The long-term expected rate of return on pension plan and OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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. The target allocation 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	28.00 %	5.60 %
Private equity pools	18.00	8.70
International equity pools	16.00	7.20
Fixed-income pools	10.50	(0.10)
Real estate and infrastructure pools	10.00	4.20
Real return, opportunistic, and absolute pools	15.50	5.00
Short-term investment pools	2.00	(0.90)
Total	100.00 %	

MPSERS approved a decrease in the discount rate for the September 30, 2017 annual actuarial valuation for the pension plan and the OPEB plan to 7.05 percent and 7.15 percent, respectively. As a result, the actuarial computed employer contributions, net pension liability, and net OPEB liability will increase for the measurement period ended September 30, 2018.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the School District, calculated using the discount rate depending on the plan option. The following also reflects what the School District's 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:

	1 Percent Decrease (6.00 - 6.50%)	Current Discount Rate (7.00 - 7.50%)	1 Percent Increase (8.00 - 8.50%)
Net pension liability of the School District	\$ 1,201,259	\$ 922,153	\$ 687,164

June 30, 2018

Note 9 - Michigan Public School Employees' Retirement System (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the School District, calculated using the current discount rate. It also reflects what the School District's 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:

	1 Percent Decrease (6.50%)	Current Discount Rate (7.50%)	1 Percent Increase (8.50%)
Net OPEB liability of the School District	\$ 367,838	\$ 314,045	\$ 268,392

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the School District, calculated using the current healthcare cost trend rate. It also reflects what the School District's net OPEB 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:

	1 Percent Decrease (6.50%)	Current Discount Rate (7.50%)	1 Percent Increase (8.50%)
Net OPEB liability of the School District	\$ 265,954	\$ 314,045	\$ 368,649

Pension Plan and OPEB Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued MPSERS financial report.

Payable to the Pension Plan and OPEB Plan

At June 30, 2018, the School District reported amounts payable of \$12,421 and \$2,513 for the outstanding amounts of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2018.

Required Supplemental Information

Riverside School - Hagar Township #6

Required Supplemental Information
Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	(Under) Over Final Budget
Revenue				
Local sources	\$ 100,000	\$ 107,509	\$ 102,941	\$ (4,568)
State sources	465,000	574,283	618,678	44,395
Federal sources	13,000	25,000	25,050	50
Intergovernmental	5,000	1,809	-	(1,809)
Total revenue	583,000	708,601	746,669	38,068
Expenditures				
Current:				
Instruction:				
Basic programs	480,117	575,635	484,644	(90,991)
Added needs	9,500	16,469	7,122	(9,347)
Support services:				
General administration	18,820	19,585	17,785	(1,800)
School administration	-	-	70,238	70,238
Operations and maintenance	42,540	54,373	53,750	(623)
Pupil transportation services	4,000	4,478	4,478	-
Total expenditures	554,977	670,540	638,017	(32,523)
Net Change in Fund Balance	28,023	38,061	108,652	70,591
Fund Balance - Beginning of year	221,490	221,490	221,490	-
Fund Balance - End of year	\$ 249,513	\$ 259,551	\$ 330,142	\$ 70,591

Riverside School - Hagar Township #6

Required Supplemental Information
Schedule of the School District's Proportionate Share of the Net Pension
Liability
Michigan Public School Employees' Retirement System

**Last Four Plan Years
Plan Years Ended September 30**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School District's proportion of the net pension liability	0.00356 %	0.00359 %	0.00354 %	0.00341 %
School District's proportionate share of the net pension liability	\$ 922,153	\$ 895,853	\$ 863,488	\$ 750,712
School District's covered employee payroll	\$ 294,895	\$ 306,147	\$ 274,943	\$ 287,673
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	312.71 %	292.62 %	314.06 %	260.96 %
Plan fiduciary net position as a percentage of total pension liability	63.96 %	63.01 %	62.92 %	66.20 %

Riverside School - Hagar Township #6

Required Supplemental Information Schedule of Pension Contributions Michigan Public School Employees' Retirement System

Last Four Fiscal Years Years Ended June 30

	2018	2017	2016	2015
Statorily required contribution	\$ 93,895	\$ 86,012	\$ 81,087	\$ 59,158
Contributions in relation to the statorily required contribution	93,895	86,012	81,087	59,158
Contribution Deficiency	\$ -	\$ -	\$ -	\$ -
School District's Covered Employee Payroll	\$ 319,279	\$ 307,040	\$ 290,804	\$ 297,145
Contributions as a Percentage of Covered Employee Payroll	29.41 %	28.01 %	27.88 %	19.91 %

Riverside School - Hagar Township #6

Required Supplemental Information Schedule of the School District's Proportionate Share of the Net OPEB Liability Michigan Public School Employees' Retirement System

	Last Plan Year
	Plan Year Ended September 30
	<u>2017</u>
School District's proportion of the net OPEB liability	0.00355 %
School District's proportionate share of the net OPEB liability	\$ 314,045
School District's covered employee payroll	\$ 294,895
School District's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	106.49 %
Plan fiduciary net position as a percentage of total OPEB liability	36.53 %

Riverside School - Hagar Township #6

Required Supplemental Information
Schedule of OPEB Contributions
Michigan Public School Employees' Retirement System

**Last Fiscal Year
Year Ended June 30**

	<u>2018</u>
Statorily required contribution	\$ 23,061
Contributions in relation to the statorily required contribution	<u>23,061</u>
Contribution Deficiency	<u>\$ -</u>
School District's Covered Employee Payroll	\$ 319,279
Contributions as a Percentage of Covered Employee Payroll	7.22 %

June 30, 2018

Pension Information

Ultimately, 10 years of data will be presented in both of the pension-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became applicable.

Benefit Changes

There were no changes of benefit terms in 2017.

Changes in Assumptions

On February 23, 2017, MPSERS approved a decrease in the discount rate for the September 30, 2016 annual actuarial valuation of 0.5 percent to 7.00 percent to 7.50 percent based on the group.

Covered Payroll

The employers' covered payroll to be reported in the required supplemental information is defined by GASB Statement No. 82, *Pension Issues - An Amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based, and by GASB Statement No. 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For the School District, covered payroll represents payroll on which contributions to both plans are based.

OPEB Information

Ultimately, 10 years of data will be presented in both of the OPEB-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became applicable.

Benefit Changes

There were no changes of benefit terms in 2017.

Changes in Assumptions

There were no changes of benefit assumptions in 2017.

Covered Payroll

The employers' covered payroll to be reported in the required supplemental information is defined by GASB Statement No. 82, *Pension Issues - An Amendment to GASB Statements No. 67, No. 68, and No. 73* as payroll on which contributions to a pension plan are based, and by GASB Statement No. 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For the School District, covered payroll represents payroll on which contributions to both plans are based.