

Anchor Bay School District

Year Ended
June 30, 2018

Financial
Statements and
Single Audit Act
Compliance

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ANCHOR BAY SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

October 18, 2018

Board of Education
Anchor Bay School District
Casco Township, 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 *Anchor Bay School District* (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits 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 of material misstatement.

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

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

Opinions

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

Implementation of GASB Statement No. 75

As described in Note 18, the District implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. Accordingly, beginning net position of governmental activities was restated. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s basic financial statements. The combining fund financial statements and annual disclosure information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied by us 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 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 18, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

ANCHOR BAY SCHOOL DISTRICT

Management's Discussion and Analysis

As management of Anchor Bay School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018.

Financial Highlights

· Total net position	\$ (127,282,194)
· Change in total net position	(41,831)
· Fund balances, governmental funds	11,673,637
· Change in fund balances, governmental funds	(5,551,939)
· Unassigned fund balance, general fund	5,250,776
· Change in fund balance, general fund	225,840
· Installment debt outstanding	176,550,000
· Change in installment debt	(8,980,000)
· Capital assets, net	160,700,073

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, supporting services, community service, food service, international programs and student operations.

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

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

ANCHOR BAY SCHOOL DISTRICT

Management's Discussion and Analysis

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

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

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management's discussion and analysis and the schedules for the MPSERS pension and other postemployment benefit plans immediately following the notes to the financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$127,282,194 at the close of the most recent fiscal year.

Net position invested in capital assets, net of related debt used to acquire those assets that are still outstanding, amounted to \$50,947,697 at June 30, 2018. The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Net Position	
	Governmental Activities	
	2018	2017
Current and other assets	\$ 22,407,542	\$ 25,069,803
Capital assets, net	160,700,073	160,861,759
Total assets	183,107,615	185,931,562
Deferred outflows of resources	28,160,487	17,964,683
Other liabilities	139,056,669	101,338,831
Long-term liabilities	192,130,445	198,066,542
Total liabilities	331,187,114	299,405,373
Deferred inflows of resources	7,363,182	283,746
Net position:		
Net investment in capital assets	50,947,697	47,913,925
Restricted	504,556	-
Unrestricted (deficit)	(178,734,447)	(143,706,799)
Total net position	\$ (127,282,194)	\$ (95,792,874)

ANCHOR BAY SCHOOL DISTRICT

Management's Discussion and Analysis

The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in fiscal year 2015 and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in the current year. In addition to expanded disclosure requirements, the District is required to report its proportionate share of the MPERS net pension liability and net other postemployment benefits liability on the statement of net position. These changes have directly effected the District's net position as of year end, which was negative \$127,282,194.

The District's net investment in capital assets represents the District's investment in capital assets less any related debt which was \$50,947,697. Restricted net position represents amounts subject to external restrictions such as amounts restricted for capital projects or food service. The District also reported a deficit of \$178,734,447 as unrestricted net position. The negative balance is mainly related to the District's proportionate share of the MPERS net pension liability, net other postemployment benefit liability and the District's general obligation bonded debt.

	Changes in Net Position	
	Governmental Activities	
	2018	2017
Program revenues:		
Charges for services	\$ 3,790,276	\$ 2,787,176
Operating grants and contributions	12,553,135	11,583,116
General revenues:		
Property taxes	15,912,707	15,263,651
Unrestricted state aid	40,117,660	39,908,041
Other general revenues	492,086	510,341
Total revenues	<u>72,865,864</u>	<u>70,052,325</u>
Expenses:		
Instruction	36,784,827	35,705,745
Supporting services	20,773,176	18,688,572
Community service	728,682	700,983
Food service	1,986,670	1,980,566
International programs	383,874	76,217
Student operations	44,917	40,650
Interest on long-term debt	6,789,707	6,847,577
Issuance costs	-	96,602
Outgoing transfers and other uses	-	35,475
Unallocated depreciation	5,415,842	4,023,523
Total expenses	<u>72,907,695</u>	<u>68,195,910</u>
Change in net position	(41,831)	1,856,415
Net position, beginning of year	(95,792,874)	(97,649,289)
Restatement for implementation of GASB 75	(31,447,489)	-
Net position, end of year	<u>\$ (127,282,194)</u>	<u>\$ (95,792,874)</u>

ANCHOR BAY SCHOOL DISTRICT

Management's Discussion and Analysis

The District's net position decreased by \$41,831 during the current year as compared to an increase of \$1,856,415 in the previous year. The changes in the net position are primarily related to the District's proportionate share of the MPSERS net pension liability and net other postemployment benefit liability.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$11,673,637, a decrease of \$5,551,939 in comparison with the prior year. Approximately 45% of this total amount (\$5,250,776) is unassigned fund balance. The remainder of fund balance is nonspendable because the underlying assets are included in inventory and prepaid items, is assigned because the amounts are constrained by the District's intent to be used for specific purposes, or is restricted for food service, capital projects or debt service, and not available for current expenditure. The decrease to fund balance is primarily the result of capital outlay expenditures in the 2017 capital projects fund.

General Fund. The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,250,776, while the total fund balance for the general fund is \$5,575,929. As a measure of the general fund's liquidity, it is useful to compare unassigned fund balance to total general fund expenditures. Unassigned fund balance represents approximately 9.0% of total general fund expenditures. This percentage is slightly higher than in 2016-2017.

The fund balance of the District's general fund increased by \$225,840, during the current fiscal year. The unassigned fund balance increased by \$355,569.

2017 Capital Projects fund. Fund balance of \$4,919,181 is restricted for projects approved by the voters of the District.

General Fund Budgetary Highlights

By state law, Anchor Bay School District must annually approve a budget effective July 1st each year. The State Legislature's fiscal year does not begin until October 1st of the same year, however the District is required to develop a budget based on preliminary estimates and assumptions in order to meet the state deadline of July 1st.

Taking this into consideration elected District officials and administration must account for many factors during the development of the District's 2017-2018 fiscal year budget. Over the course of the year as updated information becomes available the District revises its budget to reflect the changes in revenues and expenses between the preliminary estimates and assumptions initially made during the budget development process.

Budget amendments typically reflect changes in student enrollment, staffing levels, unanticipated changes in costs, and grant funding. The District amended its budget twice during the 2017/18 fiscal year. State law requires that budget amendments be formally adopted to ensure that expenditures do not exceed appropriations.

Overall the general fund variance when comparing the final budget from the actual figures was just over 1% of total expenditures. Projected expenditure adjustments included expenditures for total compensation relevant to wages and benefits required under revised bargaining agreements which were tied to a fund equity formula dependent on the previous fiscal year audit results.

ANCHOR BAY SCHOOL DISTRICT

Management's Discussion and Analysis

The general fund actual revenue and other financing sources was \$58,710,489. That amount is less than the final budget estimate of \$58,991,137. The variance was \$280,648, or less than 1%.

The actual expenditures and other financing uses of the general fund were \$58,484,649, which is below the final budget estimate of \$59,382,506. The variance was \$897,857, or less than 2%. The variance was due to contributing factors including planned grant expenses that were deferred to the next fiscal year and conservative practices for the overall operational and administrative functions of the District.

Revenues increased by \$909,521 between the original and final budgets during the year. This was mainly due to several things that were not known at the time of the original budget. A large portion is due to retirement offset increases, grant increases, and prior year state aid adjustments.

Expenditures were increased by \$2,093,927 between the original and final budgets during the year. This was largely due to more current information being available due to contracts being settled after the original budget was adopted. The majority of the increase was due to salary and benefits that were increased in union contracts. There was also an increase in the retirement cost offset and grant expenses. Additionally, the District's health insurance premiums increased substantially in January, thus increasing the District's expenditures.

Once additional information was known, subsequent budget amendments recognized the additional revenue and changes in expenditure categories.

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2018, amounted to \$160,700,073 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, site improvements, furniture and equipment, buses and vehicles. This reflects a decrease of \$161,686 from the previous year.

Depreciation expense was recognized in the amount of \$5,415,842.

	Capital Assets (Net of Depreciation)	
	2018	2017
Capital assets not being depreciated -		
Land	\$ 3,839,025	\$ 3,839,025
Construction in progress	1,666,599	-
Capital assets being depreciated:		
Buildings and improvements	151,826,827	154,830,557
Site improvements	305,125	309,511
Furniture and equipment	2,629,899	1,597,811
Buses	318,684	241,219
Vehicles	113,914	43,636
Total capital assets, net	<u>\$ 160,700,073</u>	<u>\$ 160,861,759</u>

Additional information on the District's capital assets can be found in note 5 to the financial statements.

ANCHOR BAY SCHOOL DISTRICT

Management's Discussion and Analysis

Long-term Debt. At the end of the current fiscal year, the District had total installment debt outstanding of \$176,550,000. The change in long-term liabilities also reflects borrowings from the School Bond Loan Fund of \$3,480,428.

The District's total bonded long-term debt decreased by \$8,980,000, (approximately 4.80%) during the current fiscal year.

Additional information on the District's long term debt can be found in note 8 to the financial statements.

Factors Bearing on the District's Future

The following factors were also considered in preparing the District's budget for the 2018-19 fiscal year:

- Foundation Allowance - The Board of Education and Administration agreed to an estimate of a foundation allowance of \$7,871 per pupil for the 2018-19 fiscal year, a \$240 per pupil increase from 2017-18, based on information received from various educational organizations such as Michigan School Business Officials, Michigan Association of School Administrators, and the Michigan Association of School Boards as well as state representatives.
- Retirement Rate - The continuing cost of health insurance to current and potential retirees continues to drive the rate increase the Michigan School Employees Retirement System recommends to the legislature for approval. In 2018-19, the normal pension rate is anticipated to increase to 26.18%. However, the District will be required to pay an additional 12.21%, for all wages earned October 1, 2017 and later, for the Unfunded Actuarial Accrued Liability (UAAL).
- The retirement rate was budgeted at 38.39% to reflect an average of the retirement expense the District has to pay out on behalf of all of the staff and the different retirement plans that they choose. This included an additional 12.21% that has to be included in the revenue and expense budget for 2018-2019 to account for UAAL Stabilization costs that the District is charged and then the state is offsetting through state aid. The district's required contribution for select Defined Contribution employees will increase in the 2018-2019 school year. These figures will be adjusted further in future amendments.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Office, 5201 County Line Road, Suite 100, Casco, Michigan 48064.

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BASIC FINANCIAL STATEMENTS

ANCHOR BAY SCHOOL DISTRICT

Statement of Net Position June 30, 2018

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,793,436
Investments	10,968,290
Receivables	9,299,497
Prepaid items and other assets	346,319
Capital assets not being depreciated	5,505,624
Capital assets being depreciated, net	<u>155,194,449</u>
Total assets	<u>183,107,615</u>
Deferred outflows of resources	
Deferred charge on refunding	2,822,966
Deferred pension amounts	23,251,122
Deferred other postemployment benefit amounts	<u>2,086,399</u>
Total deferred outflows of resources	<u>28,160,487</u>
Liabilities	
Accounts payable and accrued liabilities	10,538,760
State aid note payable	500,529
Unearned revenue	1,072,251
Noncurrent liabilities:	
Due within one year	8,597,639
Due in more than one year	183,532,806
Net pension liability	94,649,187
Net other postemployment benefit liability	<u>32,295,942</u>
Total liabilities	<u>331,187,114</u>
Deferred inflows of resources	
Deferred pension amounts	6,221,433
Deferred other postemployment benefit amounts	<u>1,141,749</u>
Total deferred inflows of resources	<u>7,363,182</u>
Net position	
Net investment in capital assets	50,947,697
Restricted for food service	504,556
Unrestricted (deficit)	<u>(178,734,447)</u>
Total net position	<u><u>\$ (127,282,194)</u></u>

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

ANCHOR BAY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2018

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 36,784,827	\$ 831,401	\$ 11,509,879	\$ (24,443,547)
Supporting services	20,773,176	515,416	-	(20,257,760)
Community service	728,682	525,896	-	(202,786)
Food service	1,986,670	1,051,757	1,043,256	108,343
International programs	383,874	865,806	-	481,932
Student operations	44,917	-	-	(44,917)
Interest on long-term debt	6,789,707	-	-	(6,789,707)
Unallocated depreciation	5,415,842	-	-	(5,415,842)
Total governmental activities	\$ 72,907,695	\$ 3,790,276	\$ 12,553,135	(56,564,284)
General revenues:				
Property taxes				15,912,707
Unrestricted state aid				40,117,660
Unrestricted investment earnings				233,795
Other				258,291
Total general revenues				56,522,453
Change in net position				(41,831)
Net position, beginning of year, as restated				(127,240,363)
Net position, end of year				\$ (127,282,194)

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

ANCHOR BAY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2018

	General Fund	2017 Capital Projects Funds	Nonmajor Governmental Funds	Totals
Assets				
Cash and cash equivalents	\$ 517,487	\$ -	\$ 1,275,949	\$ 1,793,436
Investments	2,985,179	7,398,490	584,621	10,968,290
Accounts receivable	9,945	-	1,008	10,953
Due from other governments	9,189,521	-	99,023	9,288,544
Inventory	-	-	18,676	18,676
Prepaid items	325,153	-	2,490	327,643
Total assets	\$ 13,027,285	\$ 7,398,490	\$ 1,981,767	\$ 22,407,542
Liabilities				
Accounts payable	\$ 273,485	\$ 2,479,309	\$ 45,210	\$ 2,798,004
Accrued liabilities	1,909,533	-	14,013	1,923,546
Salaries and benefits payable	3,746,097	-	18,445	3,764,542
Due to other governments	675,033	-	-	675,033
State aid note payable	500,529	-	-	500,529
Unearned revenue	346,679	-	725,572	1,072,251
Total liabilities	7,451,356	2,479,309	803,240	10,733,905
Fund balances				
Nonspendable:				
Inventory	-	-	18,676	18,676
Prepaid items	325,153	-	2,490	327,643
Restricted for:				
Food service	-	-	486,768	486,768
Capital projects	-	4,919,181	173,272	5,092,453
Debt service	-	-	359,786	359,786
Assigned for:				
Student operations	-	-	137,027	137,027
International programs	-	-	508	508
Unassigned	5,250,776	-	-	5,250,776
Total fund balances	5,575,929	4,919,181	1,178,527	11,673,637
Total liabilities and fund balances	\$ 13,027,285	\$ 7,398,490	\$ 1,981,767	\$ 22,407,542

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

ANCHOR BAY SCHOOL DISTRICT

Reconciliation

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

Fund balances - total governmental funds	\$ 11,673,637
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets	230,883,978
Accumulated depreciation	(70,183,905)
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Bonds and loan fund payable	(187,226,810)
Unamortized deferred charge on refunding	2,822,966
Unamortized bond premium	(4,656,176)
Unamortized bond discount	218,289
Accrued interest on bonds payable	(1,377,635)
Compensated absences	(465,748)
Certain pension and other postemployment benefit-related amounts, such as the net pension liability, net other postemployment benefit liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(94,649,187)
Net other postemployment benefit liability	(32,295,942)
Deferred outflows related to the net pension liability	23,251,122
Deferred inflows related to the net pension liability	(6,221,433)
Deferred outflows related to the net other postemployment benefit liability	2,086,399
Deferred inflows related to the net other postemployment benefit liability	(1,141,749)
Net position of governmental activities	<u>\$ (127,282,194)</u>

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

ANCHOR BAY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2018

	General	2017 Capital Projects Funds	Nonmajor Governmental Funds	Totals
Revenues				
Local sources	\$ 6,019,406	\$ 110,208	\$ 13,529,877	\$ 19,659,491
State sources	48,716,374	-	498,304	49,214,678
Federal sources	2,911,165	-	936,053	3,847,218
Other sources	115,114	-	-	115,114
Total revenues	57,762,059	110,208	14,964,234	72,836,501
Expenditures				
Instruction	37,218,561	-	-	37,218,561
Student services	2,560,039	-	-	2,560,039
Instructional support	2,467,883	-	-	2,467,883
General administration	776,029	-	-	776,029
School administration	4,068,274	-	-	4,068,274
Business administration	820,180	-	-	820,180
Operation and maintenance	5,780,033	-	-	5,780,033
Transportation	2,910,556	-	-	2,910,556
Support services - other	1,149,403	-	-	1,149,403
Community service	733,691	-	-	733,691
Food service	-	-	1,972,565	1,972,565
Student operations	-	-	42,106	42,106
International programs	-	-	385,147	385,147
Debt service:				
Principal	-	-	8,980,000	8,980,000
Interest and fiscal charges	-	-	6,187,506	6,187,506
Capital outlay	-	5,097,273	480,151	5,577,424
Other	-	-	22,801	22,801
Total expenditures	58,484,649	5,097,273	18,070,276	81,652,198
Revenues under expenditures	(722,590)	(4,987,065)	(3,106,042)	(8,815,697)
Other financing sources (uses)				
Issuance of long-term debt	-	-	3,234,395	3,234,395
Proceeds from sale of capital assets	29,363	-	-	29,363
Transfers in	919,067	-	8,598	927,665
Transfers out	-	(927,665)	-	(927,665)
Total other financing sources (uses)	948,430	(927,665)	3,242,993	3,263,758
Net change in fund balances	225,840	(5,914,730)	136,951	(5,551,939)
Fund balances, beginning of year	5,350,089	10,833,911	1,041,576	17,225,576
Fund balances, end of year	\$ 5,575,929	\$ 4,919,181	\$ 1,178,527	\$ 11,673,637

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

ANCHOR BAY SCHOOL DISTRICT

Reconciliation

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

Net change in fund balances - total governmental funds \$ (5,551,939)

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, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital assets purchased/constructed	5,280,966
Depreciation expense	(5,415,842)
Loss on disposal of capital assets	(26,810)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Issuance of long-term debt	(3,234,395)
Principal payments on long-term debt	8,980,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in net pension liability and related deferred amounts	185,309
Change in net other postemployment benefit liability and related deferred amounts	96,197
Change in accrued interest payable on bonds and loans	(602,201)
Amortization of bond discount, bond premium and deferred charge on refunding	252,720
Change in the accrual for compensated absences	(5,836)

Change in net position of governmental activities \$ (41,831)

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

ANCHOR BAY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenues				
Local sources	\$ 5,805,035	\$ 6,050,168	\$ 6,019,406	\$ (30,762)
State sources	48,208,550	48,965,349	48,716,374	(248,975)
Federal sources	3,076,258	2,951,847	2,911,165	(40,682)
Other sources	81,400	113,400	115,114	1,714
Total revenues	57,171,243	58,080,764	57,762,059	(318,705)
Expenditures				
Instruction	36,657,408	37,512,863	37,218,561	(294,302)
Student services	2,365,708	2,532,839	2,560,039	27,200
Instructional support	2,749,310	2,591,305	2,467,883	(123,422)
General administration	749,439	782,967	776,029	(6,938)
School administration	4,114,993	4,274,917	4,068,274	(206,643)
Business administration	729,323	832,579	820,180	(12,399)
Operation and maintenance of plant	5,246,936	5,924,147	5,780,033	(144,114)
Transportation	2,974,813	2,934,134	2,910,556	(23,578)
Support services - other	990,433	1,205,676	1,149,403	(56,273)
Community service	688,810	791,079	733,691	(57,388)
Outgoing transfers and other uses	21,406	-	-	-
Total expenditures	57,288,579	59,382,506	58,484,649	(897,857)
Revenues over (under) expenditures	(117,336)	(1,301,742)	(722,590)	579,152
Other financing sources				
Proceeds from sale of capital assets	\$ -	\$ 29,363	\$ 29,363	\$ -
Transfers in	(22,927)	881,010	919,067	38,057
Other financing sources (uses)	(22,927)	910,373	948,430	38,057
Net change in fund balance	(140,263)	(391,369)	225,840	617,209
Fund balance, beginning of year	5,350,089	5,350,089	5,350,089	-
Fund balance, end of year	\$ 5,209,826	\$ 4,958,720	\$ 5,575,929	\$ 617,209

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

ANCHOR BAY SCHOOL DISTRICT

Statement of Fiduciary Assets and Liabilities June 30, 2018

	Agency Funds
Assets	
Cash and cash equivalents	\$ 590,981
	<u>590,981</u>
Liabilities	
Due to student groups	\$ 590,981
	<u>590,981</u>

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

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NOTES TO FINANCIAL STATEMENTS

ANCHOR BAY SCHOOL DISTRICT

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Anchor Bay School District (the "District") is governed by an elected seven-member Board of Education. The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. The District has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Government-wide and Fund Financial Statements

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

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

ANCHOR BAY SCHOOL DISTRICT

Notes to Financial Statements

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

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

The District reports the following major governmental funds:

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

The *2017 capital projects fund* is used to record bond proceeds or other revenue and the disbursement of funds specifically designated for acquiring new school sites, buildings, equipment, and for remodeling and repairs. The fund operates until the purpose for which it was created is accomplished.

Additionally, the District reports the following fund types:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

The *debt service fund* is used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

The *capital projects fund* is used to record bond proceeds or other revenue and the disbursement of funds specifically designated for acquiring new school sites, buildings, equipment, and for remodeling and repairs. The fund operates until the purpose for which it was created is accomplished.

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The effect of interfund activity has been eliminated from the government-wide financial statements.

ANCHOR BAY SCHOOL DISTRICT

Notes to Financial Statements

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Equity

Deposits and Investments

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

Investments are reported at fair value, except for the District's investments in the Michigan Liquid Assets Fund (MILAF), which are recorded at amortized cost.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans).

The District follows the practice of recording revenues that have been earned but not yet received as receivables. Receivables consist primarily of State Aid payments from the State of Michigan and Federal grant funds earned but not yet collected. No amounts have been identified as potentially uncollectible by management, and therefore, no amount has been recorded as a provision for bad debts.

Accounts payable and other payables reflected in the financial statements are based on when the liability is incurred.

Inventory and Prepaid Items

Inventories are stated at cost using the first-in, first-out method, and consist primarily of food, cafeteria supplies and teaching supplies. USDA donated commodities in the food service fund are recorded at fair value. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition cost at the date of

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

ANCHOR BAY SCHOOL DISTRICT

Notes to Financial Statements

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

	Years
Buildings and improvements	25-50
Furniture and Equipment	5-10
Vehicles and Buses	5-10

Deferred Outflows of Resources

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

Unearned Revenue

The District reports unearned revenue on its governmental funds balance sheet. Unearned revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

Compensated Absences

Sick days are earned by most employees at the rate of one day per month. The quantity of sick days an employee may accumulate is determined by their job category, ranging from eighteen to seventy-five days. Retiring employees who meet certain age and years of service requirements are paid for accumulated sick days to a maximum number of days and at a rate determined by their job category. There is no contractual provision for payment of unused vacation, other than the payment of prorated used vacation days earned during the year of the termination.

The liability for compensated absences reported in the government-wide statements consists of earned but unused accumulated vacation, sick leave, and severance benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts are included both for employees who are currently eligible to receive termination payments and for other employees who are expected to become eligible in the future to receive such payments upon termination.

ANCHOR BAY SCHOOL DISTRICT

Notes to Financial Statements

Long-term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Deferred Inflows of Resources

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

Fund Equity

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

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

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net position.

ANCHOR BAY SCHOOL DISTRICT

Notes to Financial Statements

Pensions and Other Postemployment Benefits

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. BUDGETARY INFORMATION

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

During the year ended June 30, 2018, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	Final Budget	Actual	Variance
General fund			
Student services	\$ 2,532,839	\$ 2,560,039	\$ 27,200

ANCHOR BAY SCHOOL DISTRICT

Notes to Financial Statements

3. DEPOSITS AND INVESTMENTS

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

Statement of Net Position	
Cash and cash equivalents	\$ 1,793,436
Investments	<u>10,968,290</u>
	12,761,726
Statement of Fiduciary Assets and Liabilities	
Cash and cash equivalents	<u>590,981</u>
Total	<u>\$ 13,352,707</u>
Deposits and investments	
Cash on hand	\$ 1,000
Bank deposits (checking/savings accounts and CD's)	1,974,087
Investments	<u>11,377,620</u>
Total	<u>\$ 13,352,707</u>

Statutory Authority

State statutes authorize the District to invest in:

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

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

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

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

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

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

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

ANCHOR BAY SCHOOL DISTRICT

Notes to Financial Statements

Investments

The District chooses to disclose its investments by specific identification. As of year end, the District had the following investments:

Investment	Maturity	Amortized Cost / Fair Value	Rating
Michigan Liquid Asset Fund - MICMS	n/a	\$ 869,887	S&P AAAM
Michigan Liquid Asset Fund - MIMAX	n/a	6,507,733	S&P AAAM
Michigan Liquid Asset Fund - MITERM	n/a	4,000,000	Unrated
		<u>\$ 11,377,620</u>	

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The District’s investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$2,220,998 of the District’s bank balance of \$2,470,998 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

ANCHOR BAY SCHOOL DISTRICT

Notes to Financial Statements

4. RECEIVABLES

Receivables as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	General	Nonmajor Governmental Funds	Totals
Accounts receivable	\$ 9,945	\$ 1,008	\$ 10,953
Due from other governments	9,189,521	99,023	9,288,544
	<u>\$ 9,199,466</u>	<u>\$ 100,031</u>	<u>\$ 9,299,497</u>

5. CAPITAL ASSETS

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

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated -				
Land	\$ 3,839,025	\$ -	\$ -	\$ 3,839,025
Construction in progress	-	1,666,599	-	1,666,599
Total capital assets not being depreciated	<u>3,839,025</u>	<u>1,666,599</u>	<u>-</u>	<u>5,505,624</u>
Capital assets being depreciated:				
Buildings and improvements	210,375,541	1,290,174	-	211,665,715
Site improvements	725,123	-	-	725,123
Furniture and equipment	6,807,028	1,563,747	11,244	8,359,531
Buses	4,163,385	627,510	587,086	4,203,809
Vehicles	318,748	132,936	27,508	424,176
	<u>222,389,825</u>	<u>3,614,367</u>	<u>625,838</u>	<u>225,378,354</u>
Less accumulated depreciation for:				
Buildings and improvements	55,544,984	4,293,904	-	59,838,888
Site improvements	415,612	4,386	-	419,998
Furniture and equipment	5,209,217	531,097	10,682	5,729,632
Buses	3,922,166	526,548	563,589	3,885,125
Vehicles	275,112	59,907	24,757	310,262
	<u>65,367,091</u>	<u>5,415,842</u>	<u>599,028</u>	<u>70,183,905</u>
Total capital assets being depreciated, net	<u>157,022,734</u>	<u>(1,801,475)</u>	<u>26,810</u>	<u>155,194,449</u>
Governmental activities capital assets, net	<u>\$160,861,759</u>	<u>\$ (134,876)</u>	<u>\$ 26,810</u>	<u>\$160,700,073</u>

Depreciation expense of \$5,415,842 is reported as "unallocated depreciation," and not allocated to individual functions.

ANCHOR BAY SCHOOL DISTRICT

Notes to Financial Statements

8. LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds	\$ 185,530,000	\$ -	\$ (8,980,000)	\$ 176,550,000	\$ 9,040,000
School bond loan fund	7,196,382	3,480,428	-	10,676,810	-
Unamortized bond premium	5,143,393	-	(487,217)	4,656,176	(487,217)
Unamortized bond discount	(263,145)	-	44,856	(218,289)	44,856
Compensated absences	459,912	5,836	-	465,748	-
Total long-term debt	\$ 198,066,542	\$ 3,486,264	\$ (9,422,361)	\$ 192,130,445	\$ 8,597,639

Compensated absences are typically liquidated by the general fund.

Bonds payable consist of the following issues:

General obligation bonds

2009 Bond Refunding Serial Bonds, due in annual installments of \$1,200,000 to \$2,765,000 due May 1, 2020, interest at 2.35% to 5.50%.	\$ 3,610,000
2011 Bond Refunding Serial Bonds, due in annual installments of \$1,040,000 to \$4,190,000 due May 1, 2029, interest at 2.00% to 5.00%.	31,850,000
2012 Bond Refunding Serial Bonds, due in annual installments of \$2,020,000 to \$2,345,000 due May 1, 2030, interest at 3.13% to 5.00%.	26,545,000
2013 Bond Refunding Serial Bonds, due in annual installments of \$1,450,000 to \$2,565,000 due May 1, 2033, interest at .200% to 5.00%.	31,705,000
2016 Bond Refunding Serial Bonds A, due in annual installments of \$1,100,000 to \$2,515,000 due May 1, 2025, interest at 5.00%.	8,465,000
2016 Bond Refunding Serial Bonds B (refunded SBLF), due in annual installments of \$12,000,000 to \$25,445,000 due May 1, 2021, interest at 1.67% to 2.23%.	63,445,000
2017 School Building and Site Bonds, due in annual installments of \$510,000 to \$2,635,000 due May 1, 2047, interest at 3.00% to 3.38%.	<u>10,930,000</u>
Total general obligation bonds	<u>\$ 176,550,000</u>

ANCHOR BAY SCHOOL DISTRICT

Notes to Financial Statements

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

Year Ended June 30,	Principal	Interest	Total
2019	\$ 21,040,000	\$ 5,838,868	\$ 26,878,868
2020	34,010,000	5,189,785	39,199,785
2021	34,790,000	4,348,977	39,138,977
2022	12,160,000	3,322,578	15,482,578
2023	9,555,000	2,902,358	12,457,358
2024-2028	38,590,000	8,681,275	47,271,275
2029-2033	18,110,000	3,007,705	21,117,705
2034-2038	2,670,000	1,154,240	3,824,240
2039-2043	3,040,000	722,270	3,762,270
2044-2047	2,585,000	196,932	2,781,932
Totals	\$ 176,550,000	\$ 35,364,988	\$ 211,914,988

School Bond Loan Fund

The School Bond Loan Fund represents amounts borrowed from the State of Michigan School Bond Loan Program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the debt service requirements on the general obligation bonds. Changes to the School Bond Loan Fund for the year ended June 30, 2018, are as follows:

	Principal	Interest	Total
Beginning balance	\$ 7,059,543	\$ 136,839	\$ 7,196,382
Additions	3,234,395	246,033	3,480,428
Ending balance	<u>\$ 10,293,938</u>	<u>\$ 382,872</u>	<u>\$ 10,676,810</u>

9. STATE AID NOTE PAYABLE

During the year, the District financed certain of its operations through the issuance of State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly are recorded as liabilities of the respective funds from which they were issued. The District borrowed \$2,500,000 on August 21, 2017 with a interest rate of 1.27%. This note is due on July 20, 2018.

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

	Beginning Balance	Additions	Deductions	Ending Balance
State aid note	\$ 400,285	\$ 2,500,000	\$ 2,399,756	\$ 500,529

ANCHOR BAY SCHOOL DISTRICT

Notes to Financial Statements

10. OPERATING LEASES

The District has two operating lease agreements for four buses that provide for annual minimum lease payments as follows:

Year Ended June 30,	Total
2019	\$ 39,140
2020	<u>39,140</u>
	<u>\$ 78,280</u>

Rental expense for all operating leases aggregated \$52,416 for the year ended June 30, 2018.

11. NET INVESTMENT IN CAPITAL ASSETS

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

Capital assets, net	\$160,700,073
Capital related bonds payable outstanding	(113,105,000)
Unamortized bond premium	(4,656,176)
Unamortized bond discount	93,381
Unspent bonded capital projects	5,092,453
Deferred charge on refunding	<u>2,822,966</u>
Net investment in capital assets	<u>\$ 50,947,697</u>

12. RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty, theft, damage to various tort and liability claims and worker's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. The pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the district from significant adverse financial impact.

ANCHOR BAY SCHOOL DISTRICT

Notes to Financial Statements

13. PROPERTY TAXES

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

The District received reduced property tax revenues during 2018 as a result of industrial facilities tax exemptions (IFT's) and brownfield redevelopment agreements entered into by cities, villages, townships, and authorities within the District boundaries.

The IFT's were entered into based upon the Plant Rehabilitation and Industrial Developments Districts Act (known as the Industrial Facilities Exemption), PA 198 of 1974, as amended. IFT's provide a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high-tech facilities. Properties qualifying for IFT status are taxed at 50% of the millage rate applicable to other real and personal property within the District boundaries. The abatements amounted to approximately \$65,000 in reduced District tax revenues for 2018.

15. PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS

Plan Description

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

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

The System's financial statements are available at the ORS website at www.michigan.gov/orsschools.

ANCHOR BAY SCHOOL DISTRICT

Notes to Financial Statements

Pension Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits for are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Other Postemployment Benefits Provided

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

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

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

ANCHOR BAY SCHOOL DISTRICT

Notes to Financial Statements

Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 22-year period for the 2017 fiscal year.

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

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

Required contributions to the pension plan from the District were \$10,667,512 for the year ended June 30, 2018.

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

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

Required contributions to the OPEB plan from the District were \$2,318,954 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$94,649,187 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was .36524%, which was a decrease of .00541% from its proportion measured as of September 30, 2016.

ANCHOR BAY SCHOOL DISTRICT

Notes to Financial Statements

For the year ended June 30, 2018, the District recognized pension expense of \$10,500,791. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ 822,566	\$ 464,424	\$ 358,142
Changes in assumptions	10,369,571	-	10,369,571
Net difference between projected and actual earnings on pension plan investments	-	4,524,854	(4,524,854)
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,126,747	1,232,155	894,592
	<u>13,318,884</u>	<u>6,221,433</u>	<u>7,097,451</u>
District contributions subsequent to the measurement date	9,932,238	-	9,932,238
	<u>9,932,238</u>	<u>-</u>	<u>9,932,238</u>
Total	<u>\$ 23,251,122</u>	<u>\$ 6,221,433</u>	<u>\$ 17,029,689</u>

\$9,932,238 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2019	\$ 2,414,586
2020	3,782,832
2021	1,272,327
2022	<u>(372,294)</u>
Total	<u>\$ 7,097,451</u>

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

At June 30, 2018, the District reported a liability of \$32,295,942 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was .36470%.

ANCHOR BAY SCHOOL DISTRICT

Notes to Financial Statements

For the year ended June 30, 2018, the District recognized OPEB expense of \$2,149,042. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 343,857	\$ (343,857)
Net difference between projected and actual earnings on OPEB plan investments	-	747,981	(747,981)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	49,911	(49,911)
	<u>-</u>	<u>1,141,749</u>	<u>(1,141,749)</u>
District contributions subsequent to the measurement date	2,086,399	-	2,086,399
	<u>2,086,399</u>	<u>-</u>	<u>2,086,399</u>
Total	<u>\$ 2,086,399</u>	<u>\$ 1,141,749</u>	<u>\$ 944,650</u>

\$2,086,399 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2019	\$ (275,000)
2020	(275,000)
2021	(275,000)
2022	(275,000)
2023	<u>(41,749)</u>
Total	<u>\$ (1,141,749)</u>

ANCHOR BAY SCHOOL DISTRICT

Notes to Financial Statements

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension and OPEB liabilities in the September 30, 2016 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	7.5%
Pension Plus plan (hybrid)	7.0%
OPEB plans	7.5%
Projected salary increases	3.5% - 12.3%, including wage inflation at 3.5%
Cost of living adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	7.5% Year 1 graded to 3.5% Year 12
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.
Other OPEB assumptions:	
Opt out assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
Coverage election at retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.5188 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.4744 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

ANCHOR BAY SCHOOL DISTRICT

Notes to Financial Statements

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of September 30, 2017, are summarized in the following table:

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

Discount Rate

A discount rate of 7.5% was used to measure the total pension and OPEB liabilities (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension and OPEB plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension and OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

ANCHOR BAY SCHOOL DISTRICT

Notes to Financial Statements

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

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$ 123,296,410	\$ 94,649,187	\$ 70,530,051

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

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net OPEB liability	\$ 37,827,882	\$ 32,295,942	\$ 27,601,057

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

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

	1% Decrease (6.5%)	Current Healthcare Cost Trend Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net OPEB liability	\$ 27,350,322	\$ 32,295,942	\$ 37,911,349

Pension and OPEB Plans Fiduciary Net Position

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

ANCHOR BAY SCHOOL DISTRICT

Notes to Financial Statements

Payable to the Pension Plan

At June 30, 2018, the District reported a payable of \$1,348,000 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2018.

Payable to the OPEB Plan

At June 30, 2018, the District reported a payable of \$288,521 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2018.

16. SUBSEQUENT EVENTS

State Aid Notes

On August 20, 2018, the District issued state aid note Series 2018A-1 in the amount of \$3,400,000 with an interest rate of 1.75%, which the District will pay in set asides beginning in March of 2019 through August of 2019, maturing on August 20, 2019.

18. RESTATEMENT

The District adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result of this change, beginning net position of governmental activities was decreased by \$31,447,489.



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**REQUIRED SUPPLEMENTARY
INFORMATION**

ANCHOR BAY SCHOOL DISTRICT

Required Supplementary Information MPSERS Cost-Sharing Multiple Employer Plan

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

	Year Ended June 30,			
	2018	2017	2016	2015
District's proportion of the net pension liability	\$ 94,649,187	\$ 92,473,137	\$ 89,141,993	\$ 29,774,310
District's proportionate share of the net pension liability	0.36524%	0.37065%	0.36496%	0.34914%
District's covered payroll	\$ 30,190,630	\$ 31,388,251	\$ 30,328,646	\$ 29,194,362
District's proportionate share of the net pension liability as a percentage of its covered payroll	313.51%	294.61%	293.92%	263.44%
Plan fiduciary net position as a percentage of the total pension liability	64.21%	63.27%	63.17%	66.20%

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

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

ANCHOR BAY SCHOOL DISTRICT

Required Supplementary Information MPSERS Cost-Sharing Multiple Employer Plan

Schedule of District's Pension Contributions

	Year Ended June 30,			
	2018	2017	2016	2015
Statutorily required contribution	\$ 10,667,512	\$ 8,268,908	\$ 7,040,585	\$ 5,422,819
Contributions in relation to the statutorily required contribution	(10,667,512)	(8,268,908)	(7,040,585)	(5,422,819)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 31,420,218	\$ 30,067,167	\$ 30,296,972	\$ 29,888,253
Contributions as a percentage of covered payroll	33.95%	27.50%	23.24%	18.14%

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

ANCHOR BAY SCHOOL DISTRICT

Required Supplementary Information MPERS Cost-Sharing Multiple Employer Plan

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

	Year Ended June 30, 2018
District's proportion of the net OPEB liability	\$ 32,295,942
District's proportionate share of the net OPEB liability	0.36470%
District's covered payroll	\$ 30,190,360
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	106.97%
Plan fiduciary net position as a percentage of the total OPEB liability	36.39%

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

ANCHOR BAY SCHOOL DISTRICT

Required Supplementary Information MPERS Cost-Sharing Multiple Employer Plan

Schedule of the District's Other Postemployment Benefit Contributions

	Year Ended June 30, 2018
Statutorily required contribution	\$ 2,318,954
Contributions in relation to the statutorily required contribution	<u>(2,318,954)</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered payroll	\$ 31,420,218
Contributions as a percentage of covered payroll	7.38%

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

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**COMBINING FUND
FINANCIAL STATEMENTS**

ANCHOR BAY SCHOOL DISTRICT

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2018

	Special Revenue	Debt Service	2003 Capital Projects Fund	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,128,694	\$ 147,255	\$ -	\$ 1,275,949
Investments	210,709	200,640	173,272	584,621
Accounts receivable	1,008	-	-	1,008
Due from other governments	87,132	11,891	-	99,023
Inventory	18,676	-	-	18,676
Prepaid items	2,490	-	-	2,490
Total assets	\$ 1,448,709	\$ 359,786	\$ 173,272	\$ 1,981,767
Liabilities				
Accounts payable	\$ 45,210	\$ -	\$ -	\$ 45,210
Accrued liabilities	14,013	-	-	14,013
Salaries and benefits payable	18,445	-	-	18,445
Unearned revenue	725,572	-	-	725,572
Total liabilities	803,240	-	-	803,240
Fund balances				
Nonspendable	21,166	-	-	21,166
Restricted	486,768	359,786	173,272	1,019,826
Assigned	137,535	-	-	137,535
Total fund balances	645,469	359,786	173,272	1,178,527
Total liabilities and fund balances	\$ 1,448,709	\$ 359,786	\$ 173,272	\$ 1,981,767

ANCHOR BAY SCHOOL DISTRICT

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

	Special Revenue	Debt Service	2003 Capital Projects Fund	Total Nonmajor Governmental Funds
Revenues				
Local sources:				
Property taxes	\$ -	\$ 11,886,880	\$ -	\$ 11,886,880
Revenue in lieu of taxes	-	11,864	-	11,864
Earnings on investments	1,708	58,453	2,376	62,537
Tuition	474,705	-	-	474,705
Food sales	1,051,757	-	-	1,051,757
Other local sources	41,786	348	-	42,134
State sources	498,304	-	-	498,304
Federal sources	936,053	-	-	936,053
Total revenues	3,004,313	11,957,545	2,376	14,964,234
Expenditures				
Food service	1,972,565	-	-	1,972,565
Student operations	42,106	-	-	42,106
International programs	385,147	-	-	385,147
Debt service:	-	-	-	-
Principal	-	8,980,000	-	8,980,000
Interest and fiscal charges	-	6,187,506	-	6,187,506
Capital outlay	480,151	-	-	480,151
Other	22,801	-	-	22,801
Total expenditures	2,902,770	15,167,506	-	18,070,276
Revenue over (under) expenditures	101,543	(3,209,961)	2,376	(3,106,042)
Other financing sources				
Issuance of long-term debt	-	3,234,395	-	3,234,395
Transfers in	8,598	-	-	8,598
Total other financing sources	8,598	3,234,395	-	3,242,993
Net change in fund balances	110,141	24,434	2,376	136,951
Fund balances, beginning of year	535,328	335,352	170,896	1,041,576
Fund balances, end of year	\$ 645,469	\$ 359,786	\$ 173,272	\$ 1,178,527

ANCHOR BAY SCHOOL DISTRICT

Combining Balance Sheet Nonmajor Special Revenue Funds June 30, 2018

	Food Service	Student Operations	International Programs	Total
Assets				
Cash and cash equivalents	\$ 307,265	\$ 137,027	\$ 684,402	\$ 1,128,694
Investments	210,709	-	-	210,709
Accounts receivable	1,008	-	-	1,008
Due from other governments	17,059	-	70,073	87,132
Inventory	15,298	3,378	-	18,676
Prepaid items	2,490	-	-	2,490
Total assets	\$ 553,829	\$ 140,405	\$ 754,475	\$ 1,448,709
Liabilities				
Accounts payable	\$ 188	\$ -	\$ 45,022	\$ 45,210
Accrued liabilities	50	-	13,963	14,013
Salaries and benefits payable	150	-	18,295	18,445
Unearned revenue	48,885	-	676,687	725,572
Total liabilities	49,273	-	753,967	803,240
Fund balances				
Nonspendable:				
Inventory	15,298	3,378	-	18,676
Prepaid items	2,490	-	-	2,490
Restricted for food service	486,768	-	-	486,768
Assigned for student operations	-	137,027	-	137,027
Assigned for international programs	-	-	508	508
Total fund balances	504,556	140,405	508	645,469
Total liabilities and fund balances	\$ 553,829	\$ 140,405	\$ 754,475	\$ 1,448,709

ANCHOR BAY SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Special Revenue Funds

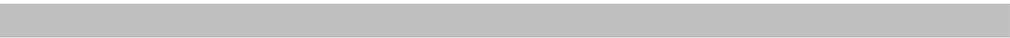
For the Year Ended June 30, 2018

	Food Service	Student Operations	International Programs	Total
Revenues				
Local sources:				
Earnings on investments	\$ 1,708	\$ -	\$ -	\$ 1,708
Tuition	-	-	474,705	474,705
Food sales	1,051,757	-	-	1,051,757
Other local sources	-	41,786	-	41,786
State sources	107,203	-	391,101	498,304
Federal sources	936,053	-	-	936,053
Total revenues	2,096,721	41,786	865,806	3,004,313
Expenditures				
Salaries	665,597	-	133,518	799,115
Benefits	353,431	-	101,131	454,562
Purchased services	13,117	-	51,472	64,589
Supplies and materials	940,420	42,106	99,026	1,081,552
Capital outlay	-	-	480,151	480,151
Other	19,990	2,811	-	22,801
Total expenditures	1,992,555	44,917	865,298	2,902,770
Revenues over (under) expenditures	104,166	(3,131)	508	101,543
Other financing sources				
Transfers in	-	8,598	-	8,598
Net change in fund balances	104,166	5,467	508	110,141
Fund balances, beginning of year	400,390	134,938	-	535,328
Fund balances, end of year	\$ 504,556	\$ 140,405	\$ 508	\$ 645,469

ANCHOR BAY SCHOOL DISTRICT

Combining Balance Sheet
 Nonmajor Debt Service Funds
 June 30, 2018

	2009 Debt Service	2011 Debt Service	2012 Debt Service
Assets			
Cash and cash equivalents	\$ -	\$ -	\$ -
Investments	-	-	-
Due from other governments	-	-	-
	-	-	-
Total assets	\$ -	\$ -	\$ -
Fund balances			
Restricted for debt service	\$ -	\$ -	\$ -



2013 Debt Service	2016 School Bond Loan Fund	2016 Debt Service	2017 Debt Service	Total
\$ 147,255	\$ -	\$ -	\$ -	\$ 147,255
200,640	-	-	-	200,640
11,891	-	-	-	11,891
<u>\$ 359,786</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 359,786</u>
<u>\$ 359,786</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 359,786</u>

ANCHOR BAY SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Debt Service Funds For the Year Ended June 30, 2018

	2009 Debt Service	2011 Debt Service	2012 Debt Service
Revenues			
Local sources:			
Property taxes	\$ 2,718,150	\$ 1,063,530	\$ 3,349,763
Revenue in lieu of taxes	-	-	-
Earnings on investments	-	-	-
Other local sources	-	-	-
Total revenues	<u>2,718,150</u>	<u>1,063,530</u>	<u>3,349,763</u>
Expenditures			
Debt service:			
Principal	2,480,000	2,750,000	2,175,000
Interest and fiscal charges	238,150	1,547,925	1,174,763
Other	-	-	-
Total expenditures	<u>2,718,150</u>	<u>4,297,925</u>	<u>3,349,763</u>
Revenues over (under) expenditures	-	(3,234,395)	-
Other financing sources			
Issuance of long-term debt	-	3,234,395	-
Net change in fund balances	-	-	-
Fund balances, beginning of year	-	-	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

2013 Debt Service	2016 School Bond Loan Fund	2016 Debt Service	2017 Debt Service	Total
\$ 2,690,941	\$ 1,351,307	\$ 423,702	\$ 289,487	\$ 11,886,880
11,864	-	-	-	11,864
58,453	-	-	-	58,453
348	-	-	-	348
<u>2,761,606</u>	<u>1,351,307</u>	<u>423,702</u>	<u>289,487</u>	<u>11,957,545</u>
1,575,000	-	-	-	8,980,000
1,162,172	1,351,307	423,702	289,487	6,187,506
-	-	-	-	-
<u>2,737,172</u>	<u>1,351,307</u>	<u>423,702</u>	<u>289,487</u>	<u>15,167,506</u>
24,434	-	-	-	(3,209,961)
-	-	-	-	3,234,395
<u>24,434</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,434</u>
<u>335,352</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>335,352</u>
<u>\$ 359,786</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 359,786</u>

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SINGLE AUDIT ACT COMPLIANCE

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

October 18, 2018

Board of Education
Anchor Bay School District
Casco Township, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Anchor Bay School District* (the "District") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 18, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



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ANCHOR BAY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2018

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Awards Amount
U.S. Department of Agriculture				
Child Nutrition Cluster:				
National School Breakfast Program:				
2016-2017 School Breakfast	10.553	MDE	171970	\$ 145,533
2017-2018 School Breakfast	10.553	MDE	181970	130,856
Entitlement commodities (non-cash assistance)	10.555	MDE	n/a	132,551
National School Lunch:				
2016-2017 Section 11	10.555	MDE	171960	637,926
2017-2018 Section 11	10.555	MDE	181960	563,925
Special Milk Program	10.556	MDE	-n/a-	1,588
Total U.S. Department of Agriculture				
U.S. Department of Education				
Title I:				
Title I, Part A - Improving Basic Programs	84.010	MDE	171530-1617	397,831
Title I, Part A - Improving Basic Programs	84.010	MDE	181530-1718	381,513
Special Education Cluster:				
IDEA Flow-through - C/O	84.027A	MISD	150450-1516	944,306
IDEA Flow-through	84.027A	MISD	160450-1617	1,310,542
IDEA Flow-through - C/O	84.027A	MISD	160450-1617	933,974
IDEA Flow-through	84.027A	MISD	170450-1718	1,285,060
IDEA Pre-school Grant	84.173A	MISD	160460-1617	59,060
IDEA Pre-school Grant	84.173A	MISD	170460-1718	57,545
Total Special Education Cluster				
2016-2017 Perkins	84.048	MISD	173520-171216	\$ 78,580
2017-2018 Perkins	84.048	MISD	183520-181218	114,479
Indian Education	84.060	Direct	SO60A160048	40,880

(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue at July 1, 2017	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue at June 30, 2018
\$ 131,848	\$ -	\$ 13,685	\$ 13,685	\$ -
-	-	130,856	130,856	-
<u>131,848</u>	<u>-</u>	<u>144,541</u>	<u>144,541</u>	<u>-</u>
-	-	163,774	163,774	-
575,701	-	62,225	62,225	-
-	-	563,925	563,925	-
<u>575,701</u>	<u>-</u>	<u>789,924</u>	<u>789,924</u>	<u>-</u>
-	-	1,588	1,588	-
<u>707,549</u>	<u>-</u>	<u>936,053</u>	<u>936,053</u>	<u>-</u>
372,643	64,263	64,263	-	-
-	-	334,927	373,686	38,759
<u>372,643</u>	<u>64,263</u>	<u>399,190</u>	<u>373,686</u>	<u>38,759</u>
944,306	260,449	260,449	-	-
1,310,542	350,499	350,499	-	-
-	-	783,077	933,974	150,897
-	-	1,063,028	1,285,060	222,032
<u>2,254,848</u>	<u>610,948</u>	<u>2,457,053</u>	<u>2,219,034</u>	<u>372,929</u>
59,060	876	876	-	-
-	-	57,545	57,545	-
<u>59,060</u>	<u>876</u>	<u>58,421</u>	<u>57,545</u>	<u>-</u>
<u>2,313,908</u>	<u>611,824</u>	<u>2,515,474</u>	<u>2,276,579</u>	<u>372,929</u>
78,580	11,044	11,044	-	-
-	-	83,532	114,479	30,947
<u>78,580</u>	<u>11,044</u>	<u>94,576</u>	<u>114,479</u>	<u>30,947</u>
-	-	40,880	40,880	-

continued...

ANCHOR BAY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2018

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Awards Amount
U.S. Department of Education (concluded)				
Title III, Part A - English Language	84.365A	MISD	180570	2,677
Title II:				
Title II, Part A - Improving Teacher Quality	84.367	MDE	170520-1617	199,304
Title II, Part A - Improving Teacher Quality	84.367	MDE	180520-1718	134,674
 Total U.S. Department of Education				
 Total Federal Financial Assistance				

See notes to schedule of expenditures of federal awards.

(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue at July 1, 2017	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue at June 30, 2018
\$ -	\$ -	\$ 1,489	\$ 2,677	\$ 1,188
189,971	57,171	58,425	1,254	-
-	-	97,633	101,610	3,977
<u>189,971</u>	<u>57,171</u>	<u>156,058</u>	<u>102,864</u>	<u>3,977</u>
<u>2,955,102</u>	<u>744,302</u>	<u>3,207,667</u>	<u>2,911,165</u>	<u>447,800</u>
<u>\$ 3,662,651</u>	<u>\$ 744,302</u>	<u>\$ 4,143,720</u>	<u>\$ 3,847,218</u>	<u>\$ 447,800</u>

concluded.

ANCHOR BAY SCHOOL DISTRICT

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

ANCHOR BAY SCHOOL DISTRICT

Notes to Schedule of Expenditures of Federal Awards

3. PASS-THROUGH AGENCIES

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

Pass-through Agency Abbreviation	Pass-through Agency Name
MDE	Michigan Department of Education
MISD	Macomb Intermediate School District



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

October 18, 2018

Board of Education
Anchor Bay School District
Casco Township, 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 *Anchor Bay School District* (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 18, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Rehmann Lobson LLC". The signature is written in a cursive, flowing style.

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

October 18, 2018

Board of Education
Anchor Bay School District
Casco Township, Michigan

Report on Compliance for the Major Federal Program

We have audited the compliance of *Anchor Bay Public Schools* (the "District") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2018. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

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

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



ANCHOR BAY SCHOOL DISTRICT

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

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? _____ yes X none reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of major programs and type of auditor's report issued on compliance for each major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Type of Report</u>
10.553 & 10.555 & 10.556	Child Nutrition Cluster	Unmodified

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

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

ANCHOR BAY SCHOOL DISTRICT

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

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

■ ■ ■ ■ ■

ANCHOR BAY SCHOOL DISTRICT

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

None reported.



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