

**GLADSTONE AREA SCHOOLS**

**GLADSTONE, MICHIGAN**

**FINANCIAL REPORT WITH  
SUPPLEMENTAL INFORMATION**

**June 30, 2018**







# GLADSTONE AREA SCHOOLS

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Gladstone Area Schools  
Gladstone, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gladstone Area Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Gladstone Area Schools' basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

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

### **Change in Accounting Principle**

As described in Note L to the financial statements, in 2018, the Gladstone Area Schools adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than*







*Pensions.* The unrestricted net position has been restated as of July 1, 2017 as a result of this change in accounting principle. Our opinion is not modified with respect to this matter.

#### ***Other Matters***

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

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

##### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Gladstone Area Schools' basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of taxable information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the of taxable information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of taxable information are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

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

*Anderson, Tackman & Company P.C.*

Certified Public Accountants  
Escanaba, Michigan

October 29, 2018







## GLADSTONE AREA SCHOOLS

### Management's Discussion and Analysis

This section of Gladstone Area School's annual financial report presents our discussion and analysis of the district's financial performance during the year ended June 30, 2018. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Generally accepted accounting principles (GAAP) according to GASB 34 require the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements. These statements are organized so the reader can understand Gladstone Area School's financial position as a whole. The District-wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a long-term view of those finances. The Fund Financial Statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The Fund Financial Statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds, the General Fund, School Lunch Fund and the Debt Service Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the Statement of Fiduciary Net Assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. The table of contents earlier in this audit report provides you with the list of financial reports contained within this report.

The following summarizes the net position at fiscal year ended June 30, 2017 and 2018:

	<u>2017</u>	<u>2018</u>
<b>Assets</b>		
Current Assets	\$ 4,768,440	\$ 4,987,929
Capital Assets	16,894,968	16,266,331
Total Assets	<u>\$ 21,663,408</u>	<u>\$ 21,254,260</u>
<b>Deferred Outflows of Resources</b>		
Related to Pensions & OPEB	<u>\$ 3,488,934</u>	<u>\$ 5,518,997</u>
<b>Liabilities</b>		
Current Liabilities	\$ 4,306,753	\$ 4,592,820
Long-term Liabilities	32,123,498	38,235,586
Total Liabilities	<u>\$ 36,430,251</u>	<u>\$ 42,828,406</u>
<b>Deferred Inflows of Resources</b>		
Related to Pensions, OPEB & Bonds	<u>\$ 96,066</u>	<u>\$ 2,029,005</u>
<b>Net Position</b>		
Net Investment in Capital Assets	\$ 3,476,779	\$ 4,857,804
Restricted	733,973	499,291
Unrestricted (Deficit)	<u>(15,584,727)</u>	<u>(23,441,249)</u>
Total Net Position	<u>\$ (11,373,975)</u>	<u>\$ (18,084,154)</u>



## GLADSTONE AREA SCHOOLS

### Management's Discussion and Analysis

The above focuses on net position. Gladstone Area Schools continues to show a large negative net position due to the Governmental Accounting Standards Board (GASB) pronouncement number 68 and the new GASB 75, which requires a governmental entity's financial statements to recognize its share of the unfunded pension liability. Gladstone Area Schools is part of the Michigan Public School Employees' Retirement System (MPERS). MPERS' total pension and OPEB plans are currently underfunded \$29,438,189,000 and \$8,409,926,000, respectively, as of September 30, 2017. Gladstone Area Schools' share of the unfunded pension and OPEB liability is \$20,320,582 and \$6,938,254. Though this looks ominous when added to the school's financial statements, the State of Michigan has worked with its actuaries to develop a plan to stabilize the MPERS over the next 25 years.

The School District's net position was \$(18,074,722) as of June 30, 2018. The Net Investment in Capital Assets totaled \$4,857,804. This compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected. Restricted net assets of \$499,291 are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations. The remaining \$(23,441,249) represents the accumulated results of all past years' operations. The operating results of the General Fund will have an impact on the change in unrestricted net position from year to year.

#### CAPITAL ASSETS AND DEBT

**Capital Assets** - At June 30, 2018, the District had \$16,266,331 (net of depreciation) invested in a broad range of capital assets, including land, buildings, furniture and equipment. Net capital assets decreased \$628,637 from the prior year.

	2017	2018
Land	\$ 149,340	\$ 149,340
Land Improvements	348,055	371,267
Buildings and Improvements	28,257,814	28,302,270
Vehicles	1,141,064	1,141,064
Machinery and Equipment	1,138,268	1,324,235
Total	31,034,541	31,288,176
Less Accumulated Depreciation	(14,139,573)	(15,021,845)
Net Total	<u>\$ 16,894,968</u>	<u>\$ 16,266,331</u>

**Debt** - At the end of this year the District had \$10,590,000 in General Obligation Bonds outstanding. This is a decrease of \$1,885,000, which is the result of principal payments made on the bonds. During the year, the District successfully executed the sale of its \$8,120,000 2018 Refunding Bonds. The proceeds from the sale were used to refund the 2012 School Building & Site Bonds and the 2008 Refunding Bonds. The District has certain other debt obligations which are discussed in Note H of these financial statements.



# GLADSTONE AREA SCHOOLS

## Management's Discussion and Analysis

### OPERATIONS

The results of this year's operations for Gladstone Area Schools, as a whole, are reported in the statement of activities. Net position increased \$386,367 and \$1,077,866 from operations in 2018 and 2017, respectively.

	<u>2017</u>	<u>2018</u>
<b>Program Revenues:</b>		
Charges for Services	\$ 394,482	\$ 390,213
Operating Grants and Contributions	1,094,976	1,190,598
Total Program Revenue	<u>\$ 1,489,458</u>	<u>\$ 1,580,811</u>
<b>General Revenues:</b>		
Property taxes levied for general operations	\$ 1,281,430	\$ 1,298,814
Property taxes levied for debt service	1,543,261	1,543,728
State Foundation Allowance	11,849,067	12,178,547
Other	232,033	238,759
Total General Revenues	<u>\$ 14,905,791</u>	<u>\$ 15,259,848</u>
<b>Total Revenues</b>	<u>\$ 16,395,249</u>	<u>\$ 16,840,659</u>
<b>Expenses:</b>		
Instruction	\$ 8,561,796	\$ 9,439,820
Support Services	4,456,618	4,581,974
Depreciation-Unallocated	869,848	882,272
Interest on Long-Term Debt	465,370	597,459
Athletics	255,606	259,357
Food Services	604,520	589,380
Public Library	103,625	104,030
<b>Total Expenses</b>	<u>\$ 15,317,383</u>	<u>\$ 16,454,292</u>
Change in Net Position	<u>\$ 1,077,866</u>	<u>\$ 386,367</u>
Net Position, Beginning of Year as Previously Stated	(12,451,841)	(11,373,975)
Prior Period Adjustment	-	(7,096,546)
Net Position, Beginning of Year as Restated	<u>(12,451,841)</u>	<u>(18,470,521)</u>
<b>Net Position, End of Year</b>	<u>\$ (11,373,975)</u>	<u>\$ (18,084,154)</u>

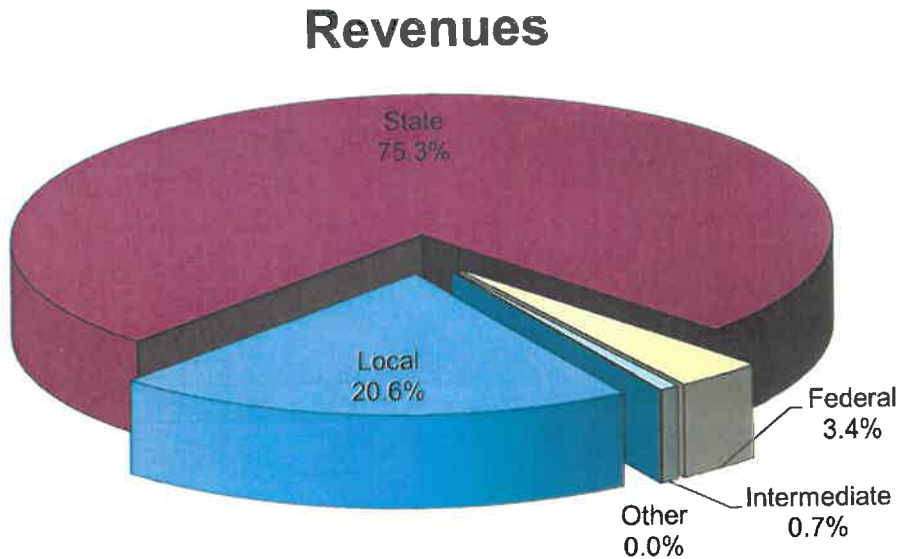


# GLADSTONE AREA SCHOOLS

## Management's Discussion and Analysis

### REVENUES

The following chart illustrates the District's sources of revenues:



**Sources of Revenues** - Local sources of revenues total \$3,447,905 and include General Fund of revenue \$1,601,008, School Lunch Fund of \$209,388, Public Library Fund of \$93,781 and Debt Retirement Fund of \$1,543,728. Local sources make up 20.6% of total Governmental Funds Revenues. This is down .3% from last year.

State sources of revenues total \$12,619,601 and include General Fund revenue of \$12,587,861, School Lunch Fund of \$23,948, and the Public Library Fund of \$7,792. State sources make up 75.3% of total Governmental Funds Revenues. This is up .7% from last year.

Federal sources of revenues total \$575,327 and include General Fund revenues of \$236,448 and School Lunch Fund of \$338,879. Federal sources make up 3.4% of total Governmental Funds Revenues. This is down .3% from last year.

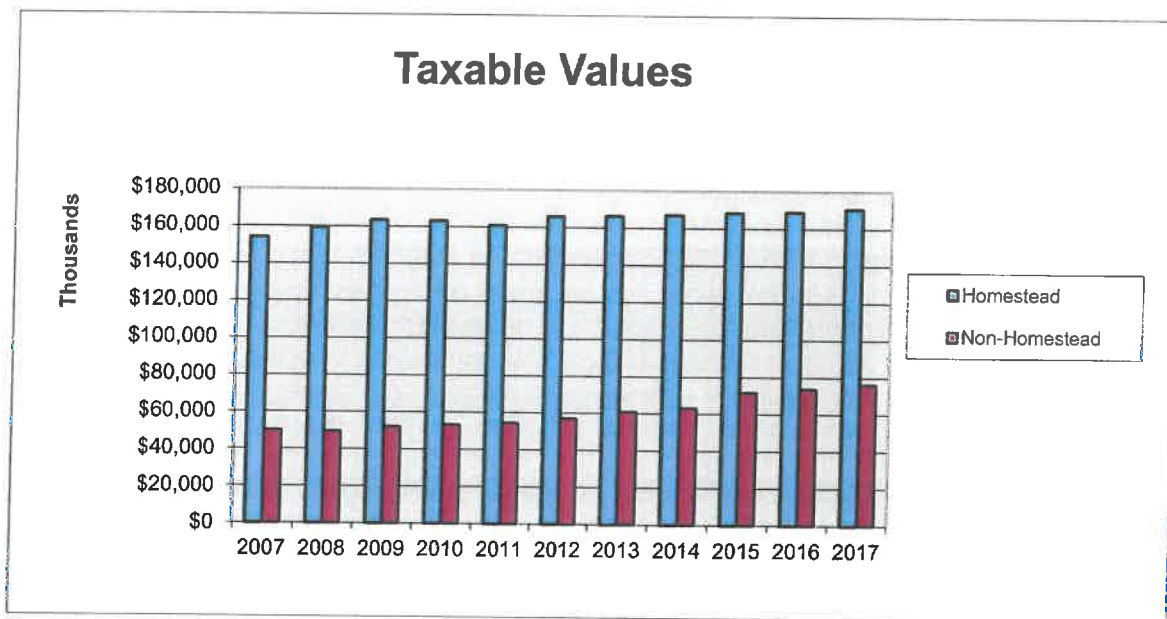
Intermediate sources total \$123,333 and are made up entirely of General Fund revenues. Intermediate sources of revenue make up .8% of total Governmental Funds Revenues. This is down .1% from last year.

Other sources of revenue total \$2,637, which is negligible.

**Property Taxes** - A significant portion of local revenue is provided from property taxes for the General Fund and Debt Retirement Fund. Property tax revenue totaled \$2,842,542. This amount is obtained through a voter approved 18-mill levy on the taxable value of non-homestead properties for the District's operations and a voter approved 6.30-mill levy on the taxable value of all properties, homestead and non-homestead, for debt interest and principal. The following graph illustrates the taxable value trend over the last several years:



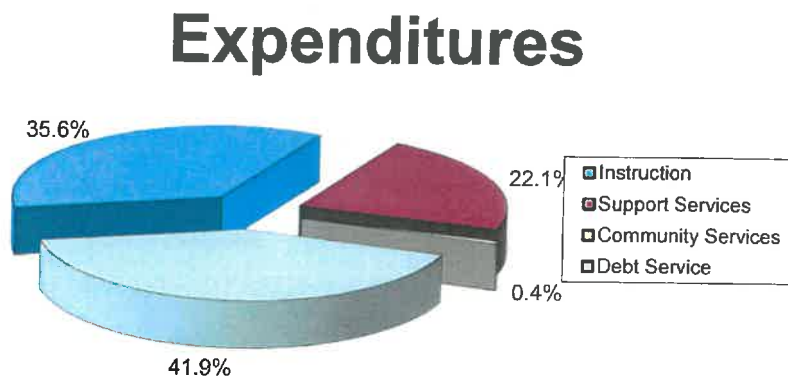
## GLADSTONE AREA SCHOOLS Management's Discussion and Analysis



**Unrestricted State Aid Foundation Allowance** - The largest factor affecting our funding is the state's foundation allowance. The foundation allowance is funding from the state for each student. Our foundation allowance was \$7,631 per student for the 2017-2018 fiscal year. Funding is calculated by student enrollment and is a blend of 90% of current year fall count and 10% of the current year spring count. The state also has a mechanism to add or subtract funding to districts for students entering or exiting a district between count days. The blended student enrollment for fiscal year 2017-2018 was 1,572.19. The per student funding was then reduced by the District's non-homestead tax revenues (18.0 mills) and by the District's commercial personal property tax revenues (6.0 mills).

### EXPENDITURES

The following chart illustrates the District's expenditures. Total Governmental Fund Expenditures are \$25,692,373 and include Instruction of \$9,151,969, Support Services of \$5,684,346, Community Services of \$104,030 and Debt Service of \$10,752,028, which includes the payoff of the 2008 and 2012 bonds. School Lunch Fund and Athletic Fund Expenses are included in Support Services.





**GLADSTONE AREA SCHOOLS**  
**Management's Discussion and Analysis**

**ECONOMIC FACTORS AFFECTING OUR BUDGET**

The Board of Education and administration considered many factors when setting the School District's 2018 fiscal year budget. Two of the major factors affecting the budget are the State per pupil foundation allowance (amount we are paid per student which is discussed above) and the number of students attending our school.

The 2018 budget was adopted in June 2017, based on an estimate of students to be enrolled in September 2017. Over the last few years our area has been affected by the weak state and federal economies, though our community appears to be headed upward economically at the time of this writing. Our student numbers have stabilized. We continue to develop the Upper Peninsula Virtual Academy, an on-line educational alternative to a classroom based education. Our UPVA student numbers continue to increase since the program began 5 years ago. Birthrates in our area appear to have stabilized as we are beginning to see slightly larger kindergarten classes. We are hopeful our kindergarten numbers will be stable or will slightly increase going forward. We also believe that Gladstone Area Schools has positioned itself well to compete for "Schools of Choice" students who are allowed to transfer to our school district from their neighboring school district. Our financial outlook is looking brighter going forward, but we must continue to closely monitor our budget to maximize revenues and reduce expenditures wherever possible.

**ORIGINAL vs. REVISED BUDGET**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, the District amends its budget three times during the school year. For fiscal year 2017-2018, the budget was revised in November 2017, March 2018, and June 2018.

**General Fund Revenues – Budget**

Total revenues-June revision	\$ 14,526,700
Total revenues-original budget	14,529,165
Difference	<u>\$ (2,465)</u>

**General Fund Revenues - Actual**

The District's actual general fund revenues (including interest earned) were \$14,529,165 which is a slight positive variance from the June budget revision.

**General Fund Expenditures - Budget**

Total expenditures (including transfers) - June revision	\$ 14,613,119
Total expenditures (including transfers) - original budget	14,404,289
Difference	<u>\$ 208,830</u>

**General Fund Expenditures - Actual**

The District's actual general fund expenditures were \$14,404,289 which is a positive variance of 1.05% from the June budget revision.



## **GLADSTONE AREA SCHOOLS**

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

#### **Fund Balance – Budget versus Actual**

The June budget amendment projected a year end decrease of \$86,419 to our fund balance. There was an actual increase in fund balance of \$124,876.

#### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Superintendent's Office at Gladstone Area Schools, 400 South Tenth Street, Gladstone, Michigan, 49837.



GLADSTONE AREA SCHOOLS

STATEMENT OF NET POSITION

June 30, 2018

	<u>Governmental Activities</u>
ASSETS:	
Current Assets:	
Cash and Equivalents	\$ 2,552,643
Accounts Receivable	2,401,772
Prepays	21,418
Inventories	12,096
Total Current Assets	<u>4,987,929</u>
Non-Current Assets:	
Capital Assets, Net of Accumulated Depreciation	<u>16,266,331</u>
TOTAL ASSETS	<u><u>\$ 21,254,260</u></u>
DEFERRED OUTFLOWS OF RESOURCES:	
Related to Pension	\$ 4,833,721
Related to Other Post Employment Benefits	<u>685,276</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 5,518,997</u></u>
LIABILITIES:	
Current Liabilities:	
Accounts Payable	\$ 205,786
Notes Payable	1,610,000
Interest Payable	41,156
Accrued Payroll and Fringes	1,293,197
Current Maturities of Long-Term Debt	<u>1,442,681</u>
Total Current Liabilities	<u>4,592,820</u>
Non-Current Liabilities:	
Net Pension Liability	20,320,582
Net Other Post Employment Benefit Liability	6,938,254
Bonds Payable	11,372,675
Notes Payable	35,852
Compensated Absences Payable	455,462
Early Retirement Payable	555,442
Less Current Maturities Reported Above	<u>(1,442,681)</u>
Total Non-Current Liabilities	<u>38,235,586</u>
TOTAL LIABILITIES	<u><u>\$ 42,828,406</u></u>
DEFERRED INFLOWS OF RESOURCES:	
Bond Premium on 2018 Refunding	\$ 681,498
Related to Pension	1,112,943
Related to Other Post Employment Benefits	<u>234,564</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u><u>\$ 2,029,005</u></u>
NET POSITION:	
Net Investment in Capital Assets	\$ 4,857,804
Restricted for:	
Debt Service	499,291
Unrestricted	<u>(23,441,249)</u>
TOTAL NET POSITION	<u><u>\$(18,084,154)</u></u>

See accompanying notes to financial statements.



**GLADSTONE AREA SCHOOLS****STATEMENT OF ACTIVITIES**

For the year ended June 30, 2018

FUNCTIONS/PROGRAMS:	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position - Governmental Activities
		Charges for Services	Operating Grants and Contributions	
Instruction:				
Basic Programs	\$ 7,918,384	\$ 122,921	\$ 130,055	\$ (7,665,408)
Added Needs	1,521,436	-	671,995	(849,441)
Total Instruction	9,439,820	122,921	802,050	(8,514,849)
Support Services:				
Pupil	454,755	-	-	(454,755)
Instructional Staff	290,055	-	-	(290,055)
General Administration	327,353	-	-	(327,353)
School Administration	1,379,458	-	-	(1,379,458)
Business	263,475	-	-	(263,475)
Operation and Maintenance	1,059,577	-	-	(1,059,577)
Pupil Transportation	659,473	-	-	(659,473)
Activities Office	45,124	-	-	(45,124)
Outgoing Transfers	102,704	-	-	(102,704)
Total Support Services	4,581,974	-	-	(4,581,974)
Other:				
Depreciation - Unallocated	882,272	-	-	(882,272)
Interest on Long-Term Debt	597,459	-	-	(597,459)
Athletics	259,357	41,828	-	(217,529)
Food Services	589,380	209,387	362,827	(17,166)
Public Library	104,030	16,077	25,721	(62,232)
Total Other	2,432,498	267,292	388,548	(1,776,658)
Total Governmental Activities	\$ 16,454,292	\$ 390,213	\$ 1,190,598	(14,873,481)
General Revenues:				
Taxes:				
Property Taxes Levied for General Operations				1,298,814
Property Taxes Levied for Debt Service				1,543,728
State Aid Formula Grants				12,178,547
Medicaid				3,033
Investment Earnings				43,002
City of Gladstone Public Library Appropriation				11,345
Penal Fines for Public Library Operations				48,430
Rental of School Facilities				6,241
Miscellaneous Sources				126,708
Total General Revenues				15,259,848
CHANGE IN NET POSITION				386,367
Net Position, Beginning of Year as Previously Stated				(11,373,975)
Prior Period Adjustment				(7,096,546)
Net Position, Beginning of Year as Restated				(18,470,521)
NET POSITION, END OF YEAR				<u>\$ (18,084,154)</u>

See accompanying notes to financial statements.



GLADSTONE AREA SCHOOLS**BALANCE SHEET  
GOVERNMENTAL FUNDS**

June 30, 2018

	General	School Lunch	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>					
Cash and Equivalents	\$ 1,556,637	\$ 354,344	\$ 501,347	\$ 140,315	\$ 2,552,643
Accounts Receivable	2,363,001	8,823	-	-	2,371,824
Due from Other Funds	253,151	-	-	122,785	375,936
Prepaid items	21,257	161	-	-	21,418
Inventories	7,145	4,951	-	-	12,096
<b>TOTAL ASSETS</b>	<u>\$4,201,191</u>	<u>\$ 368,279</u>	<u>\$ 501,347</u>	<u>\$ 263,100</u>	<u>\$ 5,333,917</u>
<b>LIABILITIES:</b>					
Accounts Payable	\$ 171,869	\$ 31,108	\$ -	\$ 2,809	\$ 205,786
Notes Payable	1,610,000	-	-	-	1,610,000
Due to Other Funds	-	337,171	2,056	6,761	345,988
Unearned Revenue	145,856	-	-	-	145,856
Accrued Payroll and Fringes	1,293,197	-	-	-	1,293,197
<b>TOTAL LIABILITIES</b>	<u>3,220,922</u>	<u>368,279</u>	<u>2,056</u>	<u>9,570</u>	<u>3,600,827</u>
<b>FUND BALANCES:</b>					
Nonspendable					
Prepaid Expenses	21,257	161	-	-	21,418
Inventory	7,145	4,951	-	-	12,096
Restricted					
Debt Service	-	-	499,291	-	499,291
Assigned					
Debt Service	167,367	-	-	-	167,367
Public Library	-	-	-	20,424	20,424
Capital Projects	-	-	-	233,106	233,106
Unassigned	784,500	(5,112)	-	-	779,388
<b>TOTAL FUND BALANCES</b>	<u>980,269</u>	<u>-</u>	<u>499,291</u>	<u>253,530</u>	<u>1,733,090</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$4,201,191</u>	<u>\$ 368,279</u>	<u>\$ 501,347</u>	<u>\$ 263,100</u>	<u>\$ 5,333,917</u>

See accompanying notes to financial statements.



GLADSTONE AREA SCHOOLS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION**

June 30, 2018

Total fund balances - governmental funds		\$ 1,733,090
Amounts reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds. The cost of the assets is \$31,288,176, and the accumulated depreciation is \$15,021,845.		16,266,331
Deferred outflows of resources related to pensions		4,833,721
Deferred outflows of resources related to OPEB		685,276
Long-term assets that are not available to pay for current period expenditures and are shown as unearned in the specific governmental funds.		145,856
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the specific governmental funds. Long-term liabilities at year-end consist of the following:		
Net pension liability	\$ 20,320,582	
Net OPEB liability	6,938,254	
Bonds payable	11,372,675	
Bond premium	681,498	
Installment notes payable	35,852	
Accrued interest on bonds and notes	41,156	
Compensated absences	455,462	
Early retirement payable	555,442	(40,400,921)
Deferred inflows of resources related to pensions		(1,112,943)
Deferred inflows of resources related to OPEB		(234,564)
Total net position - governmental activities		<u>\$ (18,084,154)</u>

See accompanying notes to financial statements.



**GLADSTONE AREA SCHOOLS**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS**

For the year ended June 30, 2018

	General	School Lunch	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>					
Local Sources	\$1,601,008	\$209,388	\$1,543,728	\$ 93,781	\$ 3,447,905
State Sources	12,587,861	23,948	-	7,792	12,619,601
Federal Sources	236,448	338,879	-	-	575,327
Intermediate Sources	123,333	-	-	-	123,333
Other	-	-	2,637	-	2,637
<b>TOTAL REVENUES</b>	<b>14,548,650</b>	<b>572,215</b>	<b>1,546,365</b>	<b>101,573</b>	<b>16,768,803</b>
<b>EXPENDITURES:</b>					
Instruction:					
Basic Programs	7,630,533	-	-	-	7,630,533
Added Needs	1,521,436	-	-	-	1,521,436
Total Instruction	9,151,969	-	-	-	9,151,969
Support Services:					
Pupil	454,755	589,380	-	-	1,044,135
Instructional Staff	290,055	-	-	-	290,055
General Administration	327,353	-	-	-	327,353
School Administration	1,379,458	-	-	-	1,379,458
Business	263,475	-	-	-	263,475
Operation and Maintenance	1,313,212	-	-	-	1,313,212
Pupil Transportation	659,473	-	-	-	659,473
Activities Office	45,124	-	-	-	45,124
Outgoing Transfers	102,704	-	-	-	102,704
Community Services	-	-	-	104,030	104,030
Capital Outlay	-	-	-	-	-
Debt Service	156,368	-	10,595,660	-	10,752,028
Athletics and Bookstore	259,357	-	-	-	259,357
Total Support Services	5,251,334	589,380	10,595,660	104,030	16,540,404
<b>TOTAL EXPENDITURES</b>	<b>14,403,303</b>	<b>589,380</b>	<b>10,595,660</b>	<b>104,030</b>	<b>25,692,373</b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b>145,347</b>	<b>(17,165)</b>	<b>(9,049,295)</b>	<b>(2,457)</b>	<b>(8,923,570)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
2012 Refunding Bonds	-	-	8,120,000	-	8,120,000
Bond Premium	-	-	681,498	-	681,498
Interest Earned	23,103	3,591	13,115	3,193	43,002
Operating Transfers In	-	13,574	-	30,000	43,574
Operating Transfers Out	(43,574)	-	-	-	(43,574)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(20,471)</b>	<b>17,165</b>	<b>8,814,613</b>	<b>33,193</b>	<b>8,844,500</b>
<b>EXCESS REVENUES AND OTHER FINANCING SOURCES (EXPENDITURES AND OTHER USES)</b>	<b>124,876</b>	<b>-</b>	<b>(234,682)</b>	<b>30,736</b>	<b>(79,070)</b>
Fund Balance, Beginning of Year	855,393	-	733,973	222,794	1,812,160
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 980,269</b>	<b>\$ -</b>	<b>\$ 499,291</b>	<b>\$ 253,530</b>	<b>\$ 1,733,090</b>

See accompanying notes to financial statements.



GLADSTONE AREA SCHOOLS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2018

Net change in fund balances - total governmental funds	\$ (79,070)
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The change in fund balances reported for governmental activities in the statement of activities is different because:

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay in the current period:

Capital outlays recorded as expenditures in governmental funds	253,635
Depreciation not reported in governmental funds	(882,272)

The issuance of long-term debt (e.g., bonds, notes and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the amount by which repayments exceeded proceeds:

Bond issuance	(8,120,000)
Premium on issuance of bonds	(681,498)
Principal payments on long-term debt	10,103,362

Revenues in the statement of activities that provide current financial resources are not reported as revenues in the specific governmental funds but rather as unearned revenues.	28,854
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In the statement of activities expenses for compensated absences and special termination benefits for early retirement are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount paid out during the year.	(42,200)
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Change in the pension expense for adjustments related to GASB #68	(828,355)
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Change in the OPEB expense for adjustments related to GASB #75	609,004
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized when the interest accrues, regardless of when it is due. The additional interest reported is a net result of these factors.

24,907

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 386,367

See accompanying notes to financial statements.



**GLADSTONE AREA SCHOOLS**

**STATEMENT OF FIDUCIARY NET POSITION**

June 30, 2018

	Private- Purpose Trusts	Agency Funds
ASSETS:		
Cash and Equivalents	\$ 38,344	\$ 1,037,720
Accounts Receivable	16,650	-
Due from Other Funds	-	-
TOTAL ASSETS	<u>\$ 54,994</u>	<u>\$ 1,037,720</u>
LIABILITIES:		
Scholarships Payable	\$ 18,150	\$ -
Due to Other Funds	29,950	-
Due to Student Groups	-	133,128
Due to Other Organizations	-	35,260
Deposit Payable	-	869,332
TOTAL LIABILITIES	<u>\$ 48,100</u>	<u>\$ 1,037,720</u>
NET POSITION		
Reserved for Scholarships	\$ 5,159	
Unreserved	<u>1,735</u>	
TOTAL NET POSITION	<u>\$ 6,894</u>	

See accompanying notes to financial statements.



GLADSTONE AREA SCHOOLS

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

For the year ended June 30, 2018

	Private- Purpose Trusts
ADDITIONS:	
Gifts and Contributions	\$ 19,980
Interest Earned	499
TOTAL ADDITIONS	20,479
DEDUCTIONS:	
Scholarships Awarded	18,150
Miscellaneous	1,132
TOTAL DEDUCTIONS	19,282
CHANGE IN NET POSITION	1,197
Net Position, Beginning of Year	5,697
NET POSITION, END OF YEAR	\$ 6,894

See accompanying notes to financial statements.



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## NOTES TO FINANCIAL STATEMENTS



## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2018

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Gladstone Area Schools (The District) conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the significant policies:

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain significant items in the statement include the following:

- A Management's Discussion and Analysis section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using the full accrual method of accounting for all of the District's activities.
- Fund financial statements that focus on the major funds of the District.

The District has also implemented GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The pronouncement defines revenue recognition for nonexchange transactions at the fund and governmental levels.

Reporting Entity – In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units as required under Government Accounting Standards Board Statement number 14, "The Financial Reporting Entity", as amended by GASB Statement number 39. Based upon the criteria outlined in this statement, the financial statements of the Gladstone Area Schools contain all the funds controlled by the District's Board of Education. There are no other entities that meet the criteria to be considered either a blended component unit or a discretely presented component of the District, nor are the District a component unit of another entity.

Basic Financial Statements – Government-Wide – The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

In the government-wide Statement of Net Position, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts:

Net investment in capital assets – This category consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.



## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2018

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted – This category consists of net position with constraints placed on the use of the assets either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation. There is \$499,291 of restricted net position in the Statement of Net Position due to the provisions of enabling legislation.

Unrestricted – All other net positions that do not meet the definition of the categories listed above.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The District's functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The net costs (by function) are normally covered by general revenue (property taxes, state and federal sources, interest income, and others).

The District does not allocate indirect costs. In creating the government-wide financial statements the District has eliminated interfund transactions.

The government-wide focus is on the sustainability of the School District as an entity and the change in the District's net position resulting from the current year's activities.

Basic Financial Statements – Fund Financial Statements – The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate self-balancing set of accounts that comprise its' assets, liabilities, fund balances, revenues and expenditures. Government resources are allocated and accounted for in the individual funds based upon the purposes for which they are to be spent and the means by which the spending activities are controlled. An emphasis is placed on major funds in the governmental category. The General Fund is always considered a major fund and the remaining funds of the District are considered major if they meet the following criteria:

- a. Total assets, liabilities, revenues or expenditures of the individual governmental fund is at least ten percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures of the individual governmental fund is at least five percent of the corresponding total of all governmental funds combined.

The District reports the General Fund, the School Lunch Fund, and the Debt Service Fund as major based on those criteria.



## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2018

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The various funds are grouped in the financial statements in this report into two broad fund categories and five generic fund types as follows:

##### Governmental Funds

General Fund - The General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for the activities of specific school service revenue sources such as the School Lunch Fund and the Public Library Fund.

Capital Project Funds - Capital project funds are used to account for financial resources to be used specifically for the acquisition, construction, or major repair of major capital facilities or other capital assets, including equipment. The Major Maintenance Fund, Energy Bonds, the 2012 Bonds and the Technology Fund are the capital project funds of the School District.

Debt Retirement Funds - Debt retirement funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

##### Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the school district in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Private Purpose Trust Funds and Agency Funds.

- a. Private-Purpose Trust Funds – Private-Purpose trust funds are used to account for the receipts and expenditures of assets held under a trust agreement. The Private-Purpose trust funds maintained by the District are the Scholarship Fund and the Health Services Fund.
- b. Agency Funds - Agency funds are used to account for assets held by the District as trustee or agent for individuals, private organizations and other governmental units. The agency funds maintained by the District are the Middle School Activity, the High School Activity, the James T. Jones Activity Fund, the Foundation Trust Fund, the Fan Club Trust Fund, and the Energy Bond Trust Fund.

Measurement Focus and Basis of Accounting – The basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus.

The government-wide financial statements use the economic resources measurement focus.

- a. Accrual Basis – Governmental activity in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.



## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2018

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- b. Modified Accrual Basis – The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recorded when the resource is both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures are generally recognized when the related fund liability is incurred with certain exceptions, such as interest of general long-term debt, which is recognized when due.

Investments – Investments are recorded at fair market value.

Inventory – The General Fund of the District utilizes the purchase method for recording the inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are acquired, regardless of when they are used.

The School Lunch Fund and the General Fund utilizes the consumption method of recording the inventory of food and supplies held for resale, and accordingly, the inventory is recorded as an expenditure when it is used. This inventory is valued at the lower of cost (first-in, first-out) or market.

Capital Assets – The accounting and reporting treatment applied to capital assets depends on whether the assets are reported in the government-wide financial statements or the fund financial statements.

In the government-wide financial statements fixed assets are capitalized. All fixed assets are valued at historical cost or estimated historical cost if actual cost is unavailable. Donated fixed assets are recorded at their estimated fair market value at the date of donation.

Depreciation on all exhaustible fixed assets is recorded as an unallocated expense in the Statement of Activities with accumulated depreciation being reflected in the Statement of Net Position. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and additions	20 - 50 years
Land improvements	15 - 20 years
Vehicles	8 years
Equipment	5 – 15 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. The District maintains a \$5,000 capitalization threshold for fixed assets.

Deferred Outflows of Resources - In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has pension and OPEB plan items that qualify for reporting in this category.



## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2018

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Inflows of Resources - In addition to liabilities, the statement of net position and/or governmental funds balance sheet 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/fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. One of these items arises from the premium paid on the 2018 bond refunding. The other two items arise from the pension and OPEB plan and qualify for reporting in this category.

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has classified prepaid items and inventories as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified debt service resources as restricted as they can only be used for future servicing of the bonded debt of the District.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Education. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District did not have any committed resources as of the fiscal year end.

Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the District's superintendent. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District has various assigned fund balances that are specifically identified on the face of the financial statements.

Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

For purposes of fund balance classification, expenditures are to be spent from restricted fund balances first (when appropriate), followed in order by assigned fund balance, committed fund balance and lastly, unassigned fund balance.



# GLADSTONE AREA SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

### NOTE B – CASH AND EQUIVALENTS

The composition of cash and equivalents as reported in the Statement of Net Position and the Statement of Fiduciary Net Position is presented below:

Financial statement presentation:

Cash and Equivalents - Governmental Funds	\$ 2,552,643
Cash and Equivalents - Trust & Agency	1,037,720
Cash and Equivalents - Private Purpose Trusts	38,344
TOTAL	<u>\$ 3,628,707</u>

Composition of balances:

Imprest Cash	\$ 1,487
Deposits:	
Checking Accounts	2,470,601
Savings Accounts	1,156,619
TOTAL	<u>\$ 3,628,707</u>

Cash and cash equivalents consist primarily of short-term investments with an original maturity of three months or less and are carried at cost, which approximates fair value.



## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2018

#### NOTE B – CASH AND EQUIVALENTS (continued)

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

*Interest Rate Risk.* The District carries no significant interest rate risk as all of its holdings are in bank accounts with a high degree of liquidity. The District's policies therefore do not address this risk.

*Credit Risk.* State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations with a maximum maturity of 270 days. As of year end the District did not hold any commercial paper.

*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. At June 30, 2018 the District held \$3,627,220 in checking and savings accounts. Of this amount \$2,849,841 was uninsured and uncollateralized.

*Concentration of Credit Risk.* The District has no significant concentration of credit risk due to fact that its deposits are with several area banks. The District's policies therefore do not address this risk.

*Foreign Currency Risk.* The District has no foreign currency risk as it has no deposits or investments in foreign currency.

All deposits for the District are in accordance with statutory authority.



**GLADSTONE AREA SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

**NOTE C – CAPITAL ASSETS**

A summary of the changes in governmental capital assets is as follows:

	Balance June 30, 2017	Additions	Disposals	Balance June 30, 2018
Land (not being depreciated)	\$ 149,340	\$ -	\$ -	\$ 149,340
Land Improvements	348,055	23,212	-	371,267
Buildings and Improvements	28,257,814	44,456	-	28,302,270
Vehicles	1,141,064	-	-	1,141,064
Machinery and Equipment	1,138,268	185,967	-	1,324,235
Depreciable Assets	30,885,201	253,635	-	31,138,836
Total Assets	31,034,541	253,635	-	31,288,176
Accumulated Depreciation	(14,139,573)	(882,272)	-	(15,021,845)
Net Total	<u>\$ 16,894,968</u>	<u>\$(628,637)</u>	<u>\$ -</u>	<u>\$ 16,266,331</u>

**NOTE D - SCHOOL DISTRICT SCHOLARSHIP FUND**

On March 17, 1997, the Gladstone Area School District entered into an agreement to create a charitable scholarship endowment within the Community Foundation for Delta County. The purpose of the fund is to benefit the education and development of graduates of the Gladstone Area School District through scholarships for college or post-secondary education. These assets no longer appear in the financial statements of the Gladstone Area School District. All assets of the fund will be repaid to the School District upon termination of the Community Foundation. Remaining cash in the Gladstone Area School's Scholarship Fund will be used for various miscellaneous scholarships.

**NOTE E - ACCRUED FRINGE BENEFITS**

The District, as part of the various employment contracts with its personnel, allows for sick and personal days. It also allows the accumulation of compensation hours for its teachers when acting as a substitute teacher. Each employment contract specifies an accumulation policy for these days, as follows:

Sick Leave - The various employment contracts with District personnel stipulate four different methods of accumulating and paying for unused sick leave.

Teachers - Twelve days are allowed annually, accumulative to 160 days. Due to a contractual early retirement incentive there are no accrued sick leave benefits.



## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2018

#### NOTE E - ACCRUED FRINGE BENEFITS (continued)

Non-Teaching Employees – Sick leave accumulates according to hours worked where 30 hours worked equals one hour of sick leave earned. There is no maximum. For employees hired before July 1, 1984, up to 120 accumulated days are payable in total at the employee's prevailing rate of pay upon retirement or death. Employees hired July 1, 1984 and thereafter are paid for one-half of their accumulated sick days (maximum accumulation of 120 days) multiplied by their prevailing rate of pay upon retirement or death. Employees hired after July 1, 2005 shall not accumulate any sick days.

Administrators - Fifteen days per year are allowed for all administrators, with a maximum accumulation of 170 days at any year end. Accumulated days are payable to administrators with 10 years employment upon severance, retirement or death. The amount payable is at a rate that varies from 60 percent to 85 percent of the administrator's daily rate of pay at retirement or death multiplied by the number of accumulated unused sick days up to a maximum of 180 days.

Superintendent – Fifteen days per year are allowed, accumulative to 180 days. Accumulated days are payable in total at 85% of the superintendent's actual rate of pay, upon severance, retirement or death.

The total unused sick leave earned as of June 30, 2018 has been calculated to be \$568,024. When subject to maximum days payable the amount is \$568,024. The accrued liability of \$410,957 represents the amount expected to be paid upon retirement or death for employees who have vested.

Personal Business Days - Teachers and administrators will be credited with three personal business days per school year, with an accumulation to a maximum of five days. Non-teaching employees will be credited with three personal days per school year. A teacher may elect to either receive a reimbursement for unused personal days, up to a maximum of five days at the rate of a substitute teacher's daily salary, or to carry two personal days to the next year. Teachers and administrators add unused personal days to accumulated sick leave. Non-teaching employees may carry two personal days over to the next fiscal year. The accrued liability for unused personal days as of June 30, 2018 amounted to \$16,531.

Compensation Hours – Teachers earn compensation hours when acting as a substitute teacher. The total compensation hours earned as of June 30, 2018 has been calculated to be \$27,974.

Early Retirement Incentive – Beginning with the year ended June 30, 2011, eligible employees have been allowed to participate in an early retirement incentive plan. The current employment contracts with teachers allow the option of early retirement to those employees who meet state requirements for retirement. Qualified retirees shall receive an early retirement incentive of up to \$1,150 per month for a period of up to five years. At June 30, 2018, 33 retirees were receiving early retirement incentive payments from early retirement incentive programs. The total estimated early retirement incentive liability under current employment contracts as of June 30, 2018 amounted to \$555,442.



**GLADSTONE AREA SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

**NOTE F - UNEARNED REVENUE**

Unearned revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met. Unearned revenue represents unexpended funds received or receivable from state and federal project grants. Unearned revenue at June 30, 2018 consisted of the following:

General Fund:	
Durant	\$ 28,813
2% Grants	8,228
Personal Finance Curriculum	53,407
Other	55,408
TOTAL	<u>\$ 145,856</u>

**NOTE G – SHORT-TERM DEBT**

The District's short-term debt activity, used solely for the purpose of operating cash flow, was as follows:

	Balance June 30, 2017	Additions	Repayments	Balance June 30, 2018
Michigan Municipal Bond Authority	<u>\$ 1,425,000</u>	<u>\$ 1,610,000</u>	<u>\$ 1,425,000</u>	<u>\$ 1,610,000</u>

**NOTE H – CHANGES IN GENERAL LONG-TERM DEBT**

The following is a summary of the changes in general long-term debt for the year ending June 30, 2018:

	Energy Bonds	Obligation Bonds	Notes Payable	Fringe Benefits	Total
Beginning Balance	\$ 890,402	\$ 12,475,000	\$ 52,787	\$ 942,404	\$ 14,360,593
Additions	-	8,120,000	-	778,965	8,898,965
Retirements	(107,727)	(10,005,000)	(16,935)	(710,465)	(10,840,127)
Ending Balance	<u>\$ 782,675</u>	<u>\$ 10,590,000</u>	<u>\$ 35,852</u>	<u>\$ 1,010,904</u>	<u>\$ 12,419,431</u>



**GLADSTONE AREA SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

**NOTE H – CHANGES IN GENERAL LONG-TERM DEBT (continued)**

At June 30, 2018 the School District's long-term debt consisted of the following:

General Obligation Bonds

February 26, 2014 issue used to refund the November 8, 2004 issue due in annual installments varying from \$275,000 to \$400,000 with the final principal payment being due on May 1, 2026.

Interest is due semiannually at variable rates ranging from 2.0% to 3.5%.

\$ 2,470,000

January 10, 2018 issue used to refund the 2012 Building and Site Bonds and the 2008 Refunding Bonds. Due in annual installments varying from \$810,000 to \$1,235,000 with the final payment due on May 1, 2026. Interest is due semiannually at 4%.

8,120,000

**TOTAL GENERAL OBLIGATION BONDS**

\$ 10,590,000

Notes Payable

Payable to bank, original loan amount of \$155,000, due in annual installments through 2019, including interest calculated at 3.85%.

\$ 35,852

Energy Bonds

Payable to bank, original issue of \$1,644,491, payable in annual installments of \$107,727 through 2024, not including interest earned on the deposits at .25%.

\$ 782,675



**GLADSTONE AREA SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

**NOTE H – CHANGES IN GENERAL LONG-TERM DEBT (continued)**

The estimated debt service requirements for principal to maturity as of June 30, 2018, with the exception of the accrued fringe benefits other than early retirement, are as follows:

Year Ending 6/30	Bonds Payable	Notes Payable	Early Retirement Incentives	Principal Total	Interest Total
2019	1,257,727	17,587	167,367	1,425,714	397,338
2020	1,307,727	18,265	137,675	1,455,967	354,888
2021	1,352,727	-	100,017	1,470,044	310,263
2022	1,402,727	-	80,650	1,525,677	263,863
2023	1,452,727	-	48,700		215,363
2024-2026	4,599,040	-	21,033	6,668,517	329,220
<b>TOTAL</b>	<b>\$ 11,372,675</b>	<b>\$ 35,852</b>	<b>\$ 555,442</b>	<b>\$ 12,545,919</b>	<b>\$ 1,870,935</b>

**Accrued Employee Benefits**

The debt service requirements for accrued employee benefits (except for early retirement incentives) are dependent upon future employee retirements and terminations. Thus, future payments are unknown at June 30, 2018.

Of the above debt, the Debt Service Fund is paying the general obligation bonds payable, the General Fund is paying the notes payable, the early retirement incentive and the fringe benefits, and the Energy Bond Trust is paying on the energy bonds.

**NOTE I – INTERFUND ACTIVITY**

During the year the District had interfund activity that was for operational purposes. The General Fund (major fund) transferred the following funds (all nonmajor funds): Technology Capital Projects Fund - \$15,000; and the Major Maintenance Capital Projects Fund - \$15,000. For the government-wide financial statements this interfund activity has been eliminated.

As of the fiscal year end, the following nonmajor funds had due to amounts recorded: Athletic Fund \$26,883, Public Library \$2,018, School Lunch \$131,516 and Debt Service \$575. The Scholarship Fund (trust fund) had a due to other funds of \$3,700. The General Fund (major fund) had a \$73,287 due from other funds recorded at year end. The following nonmajor funds also had due from other funds at year end – Major Maintenance Capital Projects Fund \$45,683, Technology Capital Projects Fund \$45,683 and the 2012 Bond Capital Projects Fund \$39. Except for the Scholarship Fund, these balances have been eliminated on the government-wide financial statements.



## **GLADSTONE AREA SCHOOLS**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

#### **NOTE J - PROPERTY TAXES**

Property taxes levied attach as an enforceable lien on property. Taxes are levied on December 1 and payable by February 28 of the subsequent year. The School District tax is collected by the various local tax collecting units (townships, cities, etc.). Any real property taxes that are delinquent at March 1 are purchased by the Delta County Delinquent Tax Revolving Fund, thereby reducing the School District taxes receivable to only those personal property taxes which are uncollected and delinquent. The District maximum tax rates are 18.00 mills per \$1,000 taxable value on non-homestead property for general operations and 6.30 mills per \$1,000 taxable value on both homestead and non-homestead property for debt retirement. The District also levies 6.00 mills on commercial personal property.

#### **NOTE K – PENSION PLAN**

##### **Plan Description**

The Michigan Public School Employees' Retirement System (System or MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. 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 Systems' financial statements are available at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

##### **Benefits Provided**

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. 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.



## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2018

#### NOTE K – PENSION PLAN (Continued)

A DB 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 right 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.

#### **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 20 year period for the 2016 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year 2017.

<b>Pension Contribution Rates</b>			
<b>Benefit Structure</b>	<b>Member</b>		<b>Employer</b>
Basic	0.0 - 4.0	%	19.03 %
Member Investment Plan	3.0 - 7.0		19.03
Pension Plus	3.0 - 6.4		18.4
Defined Contribution	0		15.27

Required contributions to the pension plan from the District were \$1,839,241 for the year ended September 30, 2017.

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

At June 30, 2018, the District reported a liability of \$20,320,582 for its proportionate share of the MPERS 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 proportionate share 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.



**GLADSTONE AREA SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

**NOTE K – PENSION PLAN (Continued)**

At September 30, 2017, the District's proportionate share percent was 0.0007841470 percent, which was a decrease of .076029263 percent from its proportion measured as of September 30, 2016.

For the year ended June 30, 2018 the District recognized pension expense of \$2,287,689. At June 30, 2018 the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 176,600	\$ 99,709
Changes of assumptions	2,226,281	-
Net difference between projected and actual earnings on pension plan investments	-	971,458
Changes in proportion and differences between District contributions and proportionate share of contributions	594,733	41,776
District contributions subsequent to the measurement date	1,836,107	-
<b>Total</b>	<b>\$ 4,833,721</b>	<b>\$ 1,112,943</b>

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

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

**Deferred (Inflows) and Deferred Outflows of  
Resources by Year (to be Recognized in  
Future Pension Expenses)**

Plan Year Ended September 30	Amount
2018	\$ 551,587
2019	887,310
2020	445,007
2021	767



## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2018

#### NOTE K – PENSION PLAN (Continued)

##### **Actuarial Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the District 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.

Additional information as of the latest actuarial valuation follows:

##### **Summary of Actuarial Assumptions**

Valuation Date:	September 30, 2016
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.50%
Investment Rate of Return:	
- MIP and Basic Plans (Non-Hybrid)	7.50%
- Pension Plus Plan (Hybrid)	7.00%
Projected Salary Increases:	3.5 – 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members

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.

##### **Notes:**

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The 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.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.5188
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report ([www.michigan.gov/orsschools](http://www.michigan.gov/orsschools)).



## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2018

#### NOTE K – PENSION PLAN (Continued)

##### Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension 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 pension 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*
Domestic Equity Pools	28.0 %	5.6 %
% Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	-0.1
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	2.0	-0.9
Total	<u>100.0 %</u>	

\*Long term rate of return does not include 2.3% inflation

##### Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 13.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

##### Discount Rate

A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan). This discount rate was based on the long term expected rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine 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 plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.



**GLADSTONE AREA SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

**NOTE K – PENSION PLAN (Continued)**

**Sensitivity of the District's Net Pension Liability to Changes in the Discount Rate**

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 Pension Plus 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-point higher:

<b>1% Decrease (Non- Hybrid/Hybrid)* 7.0% / 6.0%</b>	<b>Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%</b>	<b>1% Increase (Non- Hybrid/Hybrid)* 9.0% / 8.0%</b>
<b>\$ 26,470,960</b>	<b>\$ 20,320,582</b>	<b>\$ 15,142,356</b>

\*The Basic plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.

**Michigan Public School Employees' Retirement System (MPERS) Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR, available at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

**Pension Payable**

Pension payable consisted of \$232,934 in the General Fund, \$361 in the Library Fund and \$1,089 in the School Lunch Fund. This is a result of legally required contributions to the pension plan arising out of employee contract balances owed but unpaid as of June 30, 2018. These contributions are due to the pension plan within 7 business days after the pay period end date.

**NOTE L POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

**Plan Description**

The Michigan Public School Employees' Retirement System (System or MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. 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 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).



## **GLADSTONE AREA SCHOOLS**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

#### **NOTE L POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)**

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 Systems' financial statements are available at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

#### **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 OPEB, 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 insurance as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300, as amended.

Public Act 300 of 2012 granted all active members of MPSERS, who earned service credit in the twelve 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.



**GLADSTONE AREA SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

**NOTE L POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)**

**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 OPEB 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 20-year period for the 2017 fiscal year.

The OPEB contribution rates in effect for the fiscal year 2017 for the Premium Subsidy benefit plan was 3.0 percent employee and 5.91% employer. For the Personal Healthcare Fund (PHF) the contribution rates were 0.0% employee and 5.69% employer. Required contributions to the OPEB plan for the District were \$609,987 for the year ended September 30, 2017.

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

At June 30, 2018, the District reported a liability of \$6,938,254 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 .0007834991 percent.



**GLADSTONE AREA SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

**NOTE L POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)**

For the year ending June 30, 2018, the District recognized OPEB expense of \$464,536. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 73,872
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments		160,692
Changes in proportion and differences between District contributions and proportionate share of contributions	2,027	-
District contributions subsequent to the measurement date	683,249	-
<b>Total</b>	<b>\$ 685,276</b>	<b>\$ 234,564</b>

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

**Deferred (Inflows) and Deferred Outflows of  
Resources by Year (to be Recognized in  
Future Pension Expenses)**

Plan Year Ended	Amount
September 30	
2018	\$ (56,230)
2019	(56,230)
2020	(56,230)
2021	(56,230)
2022	(7,617)



**GLADSTONE AREA SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

**NOTE L POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)**

**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 the 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.

Additional information as of the latest actuarial valuation follows:

**Summary of Actuarial Assumptions**

Valuation Date:	September 30, 2016
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.50%
Investment Rate of Return:	7.50%
Projected Salary Increases:	3.5 – 12.3%, including wage inflation at 3.5%
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.
Opt Out Assumption:	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.
Survivor Coverage:	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retirees death.
Coverage Election at Retirement:	75% of male and 60% of female future retirees are assumed to elect coverage for one or more dependents.



## **GLADSTONE AREA SCHOOLS**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

#### **NOTE L POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)**

##### **Notes:**

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The 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.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.4744
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report ([www.michigan.gov/orsschools](http://www.michigan.gov/orsschools)).

##### **Long-Term Expected Return on Plan Assets**

The long-term expected return on OPEB plan investments is identical to the Long-Term Expected Return on Plan Assets as reported in Note K for the Pension Plan.

##### **Rate of Return**

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 11.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

##### **Discount Rate**

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



**GLADSTONE AREA SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

**NOTE L POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)**

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

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

<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
<b>6.5%</b>	<b>7.5%</b>	<b>8.5%</b>
<b>\$ 8,126,700</b>	<b>\$ 6,938,254</b>	<b>\$ 5,929,634</b>

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

<b>Current Healthcare Cost</b>		
<b>1% Decrease</b>	<b>Trend Rate</b>	<b>1% Increase</b>
<b>6.5%</b>	<b>7.5%</b>	<b>8.5%</b>
<b>\$ 5,875,768</b>	<b>\$ 6,938,254</b>	<b>\$ 8,144,632</b>

**OPEB Plan Fiduciary Net Position**

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2017 MPSERS CAFR, available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

**Payables to the OPEB Plan**

OPEB plan payable consisted of \$86,679 in the General Fund, \$135 in the Library Fund and \$405 in the School Lunch Fund. This is a result of legally required contributions to the OPEB plan arising out of employee contract balances owed but unpaid as of June 30, 2018. These contributions are due to the OPEB plan within 7 business days after the pay period end date.



## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2018

#### NOTE M - STATE FOUNDATION REVENUE

For the fiscal year ended June 30, 1995 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a statewide formula. In previous years, the state utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2018, the foundation allowance was based on 10 percent of pupil membership count taken in February of 2017 and 90 percent of pupil membership count taken in October of 2017.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mils and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes that may be levied at a rate of up to 18 mils and up to 6 mils on commercial personal property. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October through August. The local revenue is recognized as outlined in Note J which discusses property taxes.

#### NOTE N - BUDGETS AND BUDGETARY ACCOUNTING

The School District follows the procedures below in establishing the budgetary data reflected in the financial statements.

1. In June, the superintendent submits to the School Board proposed operating budgets for the fiscal year commencing the following July 1. Proposed budgets include projected expenditures and the means of financing them.
2. An opportunity exists for public comment during the budget process during a public hearing.
3. At the June School Board meeting, the budgets for the ensuing year are legally enacted through adoption by the Board and reference thereto in the Board minutes.
4. The general statute governing District budgetary activity is the State of Michigan Uniform Budgeting and Accounting Act.
5. The Gladstone School District adopts its annual budgets on a program basis. The program is defined in a formal budget structure and glossary of terms adopted by Board action. The program budget structure consists of five levels of detail as follows:

Resource allocation  
Major functional group  
Department  
Program  
Activity



## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2018

#### **NOTE N - BUDGETS AND BUDGETARY ACCOUNTING (continued)**

At each level of detail, governmental operations are summarized into expenditure account groups. Funding sources are also identified and adopted at each level of detail. Budgetary control exists at the most detailed level adopted by the Board, i.e., department, program, or activity level.

6. A detailed line item breakdown is prepared for each program, for the purpose of accounting control. Since each budget is adopted at a program level rather than the detailed line item level, transfers between line items are allowable without Board approval. Board approval is required for revision of any program budget.
7. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budgeted amounts in the financial statements are as originally adopted or amended by the School Board. Any unexpended appropriations lapse at year-end.

#### **NOTE O – RISK MANAGEMENT**

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

The District had no outstanding claims that exceeded the plan's limits and there has been no significant reduction in insurance coverage over the past three years. The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

#### **NOTE P - OTHER COMMITMENTS AND CONTINGENCIES**

The District has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the District as of June 30, 2018.



## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2018

#### **NOTE Q – ATHLETIC FUND**

To be in compliance with the guidelines issued under GASB Statement Number 54 the District has combined the Athletic Fund with the General Fund. A Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance for these two funds can be found on pages 47 and 48. Accordingly, all interfund activity between the Athletic and General Fund has been eliminated upon the combining of the funds.

#### **NOTE R – FORM R7120/GRANT AUDITOR REPORT RECONCILIATION**

The amounts reported on the R7120 Grant Auditor Report reconcile with the amounts listed in these financial statements.

#### **NOTE S – USDA COMMODITIES AGREEMENT**

The amounts reported in these financial statements agree with the Recipient Entitlement Balance Report for the USDA Donated Food Commodities for the District.

#### **NOTE T – SINGLE AUDIT**

Because the District did not have \$750,000 or more in federal expenditures during the fiscal year the District was not required to have a Single Audit under the Uniform Guidance.

#### **NOTE U – PRIOR PERIOD ADJUSTMENT**

As a result of GASB No. 75 (OPEB liability) implementation the District is required to report its share of the Net OPEB Liability described in Note L. A prior period adjustment of \$7,096,546 was made to establish the beginning balance from June 30, 2017.

#### **NOTE V – ADVANCE BOND REFUNDING**

During the fiscal year the District issued \$8,120,000 of General Obligation Bonds to refund the 2012 and 2008 bond issues. The 2018 bond issue is described in Note H of these financial statements. The net proceeds of the bonds were used to payoff the 2012 and 2008 bonds. The advance refunding was done in order to take advantage of lower debt interest rates. The refunding has decreased the District's total debt service payments by \$477,470 over the life of the bonds. The transaction resulted in an economic gain (the difference between the present value of the debt service on the old and the new bonds) of approximately \$379,598.



**REQUIRED SUPPLEMENTAL INFORMATION**



**GLADSTONE AREA SCHOOLS**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

For the year ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Local Sources	\$ 1,525,415	\$ 1,557,157	\$ 1,559,180	\$ 2,023
State Sources	12,400,913	12,580,568	12,587,861	7,293
Federal Sources	262,898	254,773	236,448	(18,325)
Intermediate Sources	111,409	111,541	123,333	11,792
<b>TOTAL REVENUES</b>	<u>14,300,635</u>	<u>14,504,039</u>	<u>14,506,822</u>	<u>2,783</u>
<b>EXPENDITURES:</b>				
Instruction:				
Basic Programs	7,658,276	7,717,441	7,630,533	86,908
Added Needs	1,499,918	1,506,720	1,521,436	(14,716)
Support Services:				
Pupil	446,674	486,647	454,755	31,892
Instructional Staff	275,693	292,226	290,055	2,171
General Administration	273,959	338,413	327,353	11,060
School Administration	1,314,877	1,401,551	1,379,458	22,093
Business Office	282,326	269,465	263,475	5,990
Operations and Maintenance	1,445,965	1,367,735	1,313,212	54,523
Pupil Transportation	676,099	676,217	659,473	16,744
Activities Office	66,822	44,981	45,124	(143)
Other	-	101,016	102,704	(1,688)
Debt Service:				
Principal	-	124,057	124,057	-
Interest	-	31,567	32,311	(744)
<b>TOTAL EXPENDITURES</b>	<u>13,940,609</u>	<u>14,358,036</u>	<u>14,143,946</u>	<u>214,090</u>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<u>360,026</u>	<u>146,003</u>	<u>362,876</u>	<u>216,873</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Interest Earned	-	22,661	22,343	(318)
Operating Transfers In	-	-	-	-
Operating Transfers Out	(463,635)	(255,083)	(260,343)	(5,260)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(463,635)</u>	<u>(232,422)</u>	<u>(238,000)</u>	<u>(5,578)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(103,609)</u>	<u>(86,419)</u>	<u>124,876</u>	<u>211,295</u>
Fund Balance, Beginning of Year	855,393	855,393	855,393	-
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 751,784</u>	<u>\$ 768,974</u>	<u>\$ 980,269</u>	<u>\$ 211,295</u>



**GLADSTONE AREA SCHOOLS**

**BUDGETARY COMPARISON SCHEDULE  
SCHOOL LUNCH FUND**

For the year ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local Sources:				
Local Sources	\$ 207,198	\$ 207,198	\$ 209,388	\$ 2,190
State Sources	23,948	23,948	23,948	-
Federal Sources	335,016	335,016	338,879	3,863
TOTAL REVENUES	566,162	566,162	572,215	6,053
EXPENDITURES:				
Support Services - Pupil:				
Food Services	602,571	602,571	589,380	13,191
TOTAL EXPENDITURES	602,571	602,571	589,380	13,191
EXCESS REVENUES (EXPENDITURES)	(36,409)	(36,409)	(17,165)	19,244
OTHER FINANCING SOURCES (USES):				
Interest Earned	3,575	3,575	3,591	16
Operating Transfers In	32,834	32,834	13,574	(19,260)
TOTAL OTHER FINANCING SOURCES (USES):	36,409	36,409	17,165	(19,244)
NET CHANGE IN FUND BALANCES	-	-	-	-
Fund Balance, Beginning of Year	-	-	-	-
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



**GLADSTONE AREA SCHOOLS**

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY**

For the year ended September 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportion of net pension liability	0.0784147%	0.07681341%	0.07488991%	0.07448%
Proportionate share of net pension liability	\$ 20,320,582	\$ 19,164,317	\$ 18,291,881	\$ 16,406,207
Covered employee payroll	\$ 6,597,679	\$ 6,535,562	\$ 6,388,473	\$ 6,269,009
Proportionate share of net pension liability as a percentage of covered employee payroll	308.00%	293.23%	286.33%	261.70%
Plan fiduciary net position as a percentage of total pension liability	64.21%	63.27%	63.17%	66.20%



**GLADSTONE AREA SCHOOLS**

**SCHEDULE OF PENSION CONTRIBUTIONS**

For the year ended June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,839,241	\$ 1,724,885	\$ 1,444,724	\$ 1,329,216
Contributions in relation to statutorily required contributions	<u>1,839,241</u>	<u>1,724,885</u>	<u>1,444,724</u>	<u>1,329,216</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 6,794,759	\$ 6,504,330	\$ 6,432,565	\$ 6,450,399
Contributions as a percentage of covered employee payroll	27.07%	26.52%	22.46%	20.61%



GLADSTONE AREA SCHOOLS

**SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY**

For the year ended September 30, 2017

	<u>2017</u>
Proportion of net OPEB liability (%)	0.07834991%
Proportionate share of net OPEB liability	\$ 6,938,254
Employer's covered payroll	\$ 6,597,679
Proportionate share of net OPEB liability as a percentage of covered employee payroll	105.16%
Plan fiduciary net position as a percentage of total OPEB liability	64.21%



**GLADSTONE AREA SCHOOLS**

**SCHEDULE OF OPEB CONTRIBUTIONS**

For the year ended June 30, 2018

	<u>2018</u>
Statutorily required OPEB contributions	\$ 609,987
OPEB contributions in relation to statutorily required contributions	<u>609,987</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll (OPEB)	\$ 6,794,759
OPEB Contributions as a percentage of covered employee payroll	8.98%



**GLADSTONE AREA SCHOOLS**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2018

**Changes of benefit terms:** There were no changes of benefit terms in FY 2018.

**Changes of assumptions:** There were no changes of benefit assumptions in FY 2018.



## OTHER SUPPLEMENTAL INFORMATION



**GLADSTONE AREA SCHOOLS**

**COMBINING BALANCE SHEET  
GENERAL AND ATHLETIC FUNDS**

June 30, 2018

	<u>General</u>	<u>Athletics and Bookstore</u>	<u>Total</u>
ASSETS:			
Cash and Equivalents	\$ 1,490,211	\$ 66,426	\$ 1,556,637
Accounts Receivable	2,363,001	-	2,363,001
Due from Other Funds	324,579	-	324,579
Prepaid Items	21,176	81	21,257
Inventories	-	7,145	7,145
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL ASSETS	<u>\$ 4,198,967</u>	<u>\$ 73,652</u>	<u>\$ 4,272,619</u>
LIABILITIES:			
Accounts Payable	\$ 169,645	\$ 2,224	\$ 171,869
Notes Payable	1,610,000	-	1,610,000
Due to Other Funds	-	71,428	71,428
Interest Payable	-	-	-
Unearned Revenue	145,856	-	145,856
Accrued Payroll and Fringes	1,293,197	-	1,293,197
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL LIABILITIES	<u>3,218,698</u>	<u>73,652</u>	<u>3,292,350</u>
FUND BALANCES:			
Nonspendable			
Prepaid Items	21,176	81	21,257
Inventories	-	7,145	7,145
Assigned			
Debt Service	167,367	-	167,367
Unassigned	791,726	(7,226)	784,500
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL FUND BALANCES	<u>980,269</u>	<u>-</u>	<u>980,269</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,198,967</u>	<u>\$ 73,652</u>	<u>\$ 4,272,619</u>

See accompanying notes to financial statements.



**GLADSTONE AREA SCHOOLS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GENERAL AND ATHLETIC FUNDS**

For the year ended June 30, 2018

	General	Athletics and Bookstore	Total
REVENUES:			
Local Sources	\$ 1,559,180	\$ 41,828	\$ 1,601,008
State Sources	12,587,861	-	12,587,861
Federal Sources	236,448	-	236,448
Intermediate Sources	123,333	-	123,333
TOTAL REVENUES	14,506,822	41,828	14,548,650
EXPENDITURES:			
Instruction:			
Basic Programs	7,630,533	-	7,630,533
Added Needs	1,521,436	-	1,521,436
Total Instruction	9,151,969	-	9,151,969
Support Services:			
Pupil	454,755	-	454,755
Instructional Staff	290,055	-	290,055
General Administration	327,353	-	327,353
School Administration	1,379,458	-	1,379,458
Business Office	263,475	-	263,475
Operation and Maintenance	1,313,212	-	1,313,212
Pupil Transportation	659,473	-	659,473
Activities Office	45,124	-	45,124
Other	102,704	-	102,704
Debt Service	156,368	-	156,368
Athletics and Bookstore	-	259,357	259,357
Total Support Services	4,991,977	259,357	5,251,334
TOTAL EXPENDITURES	14,143,946	259,357	14,403,303
EXCESS REVENUES (EXPENDITURES)	362,876	(217,529)	145,347
OTHER FINANCING SOURCES (USES):			
Interest Earned	22,343	760	23,103
Operating Transfers In	-	216,769	216,769
Operating Transfers Out	(260,343)	-	(260,343)
TOTAL OTHER FINANCING SOURCES (USES)	(238,000)	217,529	(20,471)
EXCESS REVENUES AND OTHER FINANCING SOURCES (EXPENDITURES AND OTHER USES)	124,876	-	124,876
Fund Balance, Beginning of Year	855,393	-	855,393
FUND BALANCE, END OF YEAR	\$ 980,269	\$ -	\$ 980,269

See accompanying notes to financial statements.



GLADSTONE AREA SCHOOLS

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2018

	Nonmajor Special Revenue Funds		Nonmajor Capital Project Funds			Total Nonmajor Governmental Funds
	Public Library	Technology Fund	Major Maintenance	Energy Bonds	2012 Bonds	
ASSETS:						
Cash and Equivalents	\$ 29,994	\$ -	\$ -	\$ 110,321	\$ -	\$ 140,315
Accounts Receivable	-	-	-	-	-	-
Due from Other funds	-	61,373	61,373	-	39	122,785
Prepaid Items	-	-	-	-	-	-
Inventory	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 29,994</u>	<u>\$ 61,373</u>	<u>\$ 61,373</u>	<u>\$ 110,321</u>	<u>\$ 39</u>	<u>\$ 263,100</u>
LIABILITIES:						
Accounts Payable	\$ 2,809	\$ -	\$ -	\$ -	\$ -	\$ 2,809
Due to Other Funds	6,761	-	-	-	-	6,761
Accrued Payroll	-	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<u>9,570</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,570</u>
FUND BALANCES						
Nonspendable:						
Prepaid items	-	-	-	-	-	-
Inventory	-	-	-	-	-	-
Assigned						
Public Library	20,424	-	-	-	-	20,424
Capital projects	-	61,373	61,373	110,321	39	233,106
Unassigned	-	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<u>20,424</u>	<u>61,373</u>	<u>61,373</u>	<u>110,321</u>	<u>39</u>	<u>253,530</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 29,994</u>	<u>\$ 61,373</u>	<u>\$ 61,373</u>	<u>\$ 110,321</u>	<u>\$ 39</u>	<u>\$ 263,100</u>

See accompanying notes to financial statements.



GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS**

For the year ended June 30, 2018

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds				Total Nonmajor Governmental Funds
	Public Library	Technology Fund	Major Maintenance	Energy Bonds	2012 Bonds	
REVENUES:						
Local Sources	\$ 93,781	\$ -	\$ -	\$ -	\$ -	\$ 93,781
State Sources	7,792	-	-	-	-	7,792
Federal Sources	-	-	-	-	-	-
<b>TOTAL REVENUES</b>	<b>101,573</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>101,573</b>
EXPENDITURES:						
Support Services - Pupil:						
Food Services	-	-	-	-	-	-
Community Services:						
Library	104,030	-	-	-	-	104,030
Capital Outlay	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>104,030</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>104,030</b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b>(2,457)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,457)</b>
OTHER FINANCING SOURCES:						
Interest Earned	443	690	690	1,370	-	3,193
Operating Transfers In	-	15,000	15,000	-	-	30,000
Operating Transfers Out	-	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>443</b>	<b>15,690</b>	<b>15,690</b>	<b>1,370</b>	<b>-</b>	<b>33,193</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(2,014)</b>	<b>15,690</b>	<b>15,690</b>	<b>1,370</b>	<b>-</b>	<b>30,736</b>
Fund Balances, Beginning of Year	22,438	45,683	45,683	108,951	39	222,794
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 20,424</b>	<b>\$ 61,373</b>	<b>\$ 61,373</b>	<b>\$ 110,321</b>	<b>\$ 39</b>	<b>\$ 253,530</b>

See accompanying notes to financial statements.



**GLADSTONE AREA SCHOOLS**

**COMBINING STATEMENT OF NET POSITION  
PRIVATE PURPOSE TRUSTS**

June 30, 2018

	Health Services	Scholarship	Totals
ASSETS:			
Cash and Equivalents	\$ 1,735	\$ 36,609	\$ 38,344
Accounts Receivable	-	16,650	16,650
Due from Other Funds	-	-	-
TOTAL ASSETS	<u>\$ 1,735</u>	<u>\$ 53,259</u>	<u>\$ 54,994</u>
LIABILITIES:			
Scholarships Payable	\$ -	\$ 18,150	\$ 18,150
Due to Other Funds	-	29,950	29,950
TOTAL LIABILITIES	<u>\$ -</u>	<u>\$ 48,100</u>	<u>\$ 48,100</u>
NET POSITION:			
Reserved for Scholarships	\$ -	\$ 5,159	\$ 5,159
Unreserved	<u>1,735</u>	<u>-</u>	<u>1,735</u>
TOTAL NET POSITION	<u>\$ 1,735</u>	<u>\$ 5,159</u>	<u>\$ 6,894</u>

See accompanying notes to financial statements.



**GLADSTONE AREA SCHOOLS**

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
PRIVATE PURPOSE TRUSTS**

For the year ended June 30, 2018

	<u>Health Services</u>	<u>Scholarship</u>	<u>Totals</u>
ADDITIONS:			
Gifts and Contributions	\$ 730	\$ 19,250	\$ 19,980
Interest Earned	-	499	499
TOTAL ADDITIONS	<u>730</u>	<u>19,749</u>	<u>20,479</u>
DEDUCTIONS:			
Scholarships Awarded	-	18,150	18,150
Miscellaneous	<u>1,132</u>	-	<u>1,132</u>
TOTAL DEDUCTIONS	<u>1,132</u>	<u>18,150</u>	<u>19,282</u>
CHANGE IN NET POSITION	(402)	1,599	1,197
Net Position, Beginning of Year	<u>2,137</u>	<u>3,560</u>	<u>5,697</u>
NET POSITION, END OF YEAR	<u>\$ 1,735</u>	<u>\$ 5,159</u>	<u>\$ 6,894</u>

See accompanying notes to financial statements.



GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF CHANGES  
IN ASSETS AND LIABILITIES - AGENCY FUNDS**

For the year ended June 30, 2018

	Balances 6/30/2017	Additions	Deductions	Balances 6/30/2018
<u>MIDDLE SCHOOL STUDENT COUNCIL</u>				
ASSETS:				
Cash in Bank	\$ 19,001	\$ 27,088	\$ 29,057	\$ 17,032
LIABILITIES:				
Due to Student Groups:				
Builders Club	\$ 900	\$ 50	\$ -	\$ 950
Music	684	-	-	684
Student Council	10,366	16,774	21,081	6,059
Science Olympiad	536	5,260	4,220	1,576
Athletics	2,795	2,974	1,786	3,983
Cheerleading	624	1,930	1,830	724
Drama	1,438	-	-	1,438
Washington D.C.	172	100	-	272
A Kositski Memorial Fund	486	-	78	408
Computer Science	1,000	-	62	938
TOTAL LIABILITIES	\$ 19,001	\$ 27,088	\$ 29,057	\$ 17,032

HIGH SCHOOL ACTIVITY FUND

ASSETS:				
Cash in Bank	\$ 88,148	\$ 172,836	\$ 179,385	\$ 81,599
LIABILITIES:				
Due to Student Groups				
Class of 2016	5,390	250	5,640	-
Class of 2017	215	-	-	215
Class of 2018	4,188	3,761	6,764	1,185
Class of 2019	2,075	7,831	7,449	2,457
Class of 2020	-	1,812	511	1,301
Class of 2022	684	2,052	1,575	1,161
Band	2,288	-	-	2,288
Boys Basketball	3,619	-	1,482	2,137
Building Use	1,831	9,678	7,923	3,586
Business	218	1,238	698	758
Choir	512	-	-	512
College Access Network	-	-	-	-
Compass Learning	4,309	2,156	3,659	2,806
Creative Arts Club	1,202	-	-	1,202
Digital Sign	3,814	420	4,000	234
Drama Club	3,804	2,463	1,444	4,823
EFL Scholarship	69	-	-	69
Football	15,400	22,155	24,164	13,391
Green Team	152	349	17	484
Industrial Arts Project	1,147	1,672	1,499	1,320
John Hansen Scholarship	784	-	784	-
Key Club	1,351	16,861	15,024	3,188
National Honor Society	590	4,132	3,660	1,062
Quill and Scroll	504	-	504	-
Robotics	7,662	64,179	63,568	8,273
Science Olympiad	128	392	520	-
Senior Magazine	6,019	1,305	1,889	5,435
Smith Scholarship	381	-	381	-
Spanish Club	6,475	10,087	5,888	10,674
Student Activities	4,196	12,277	12,002	4,471
Student Council	4,628	3,748	2,100	6,276
Weight Room	20	-	-	20
Yearbook	4,403	4,018	6,240	2,181
Youth in Government	90	-	-	90
TOTAL LIABILITIES	\$ 88,148	\$ 172,836	\$ 179,385	\$ 81,599

See accompanying notes to financial statements.



GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF CHANGES  
IN ASSETS AND LIABILITIES - AGENCY FUNDS**

For the year ended June 30, 2018

	<u>Balances 6/30/2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances 6/30/2018</u>
<u>JAMES T. JONES ACTIVITY FUND</u>				
ASSETS:				
Cash in Bank	<u>\$ 13,835</u>	<u>\$ 5,231</u>	<u>\$ 6,546</u>	<u>\$ 12,520</u>
LIABILITIES:				
Due to Student Groups	<u>\$ 13,835</u>	<u>\$ 5,231</u>	<u>\$ 6,546</u>	<u>\$ 12,520</u>
<u>FOUNDATION TRUST</u>				
ASSETS:				
Cash in Bank	<u>\$ 34,735</u>	<u>\$ 525</u>	<u>\$ -</u>	<u>\$ 35,260</u>
LIABILITIES:				
Due to Other Organizations	<u>\$ 34,735</u>	<u>\$ 525</u>	<u>\$ -</u>	<u>\$ 35,260</u>
<u>ENERGY BOND TRUST</u>				
ASSETS:				
Cash in Bank	<u>\$ 759,953</u>	<u>\$ 109,379</u>	<u>\$ -</u>	<u>\$ 869,332</u>
LIABILITIES:				
Deposit Payable	<u>\$ 759,953</u>	<u>\$ 109,379</u>	<u>\$ -</u>	<u>\$ 869,332</u>
<u>FAN CLUB TRUST</u>				
ASSETS:				
Cash in Bank	<u>\$ 14,189</u>	<u>\$ 96,210</u>	<u>\$ 88,422</u>	<u>\$ 21,977</u>
LIABILITIES:				
Due to Student Groups	<u>\$ 14,189</u>	<u>\$ 96,210</u>	<u>\$ 88,422</u>	<u>\$ 21,977</u>
<u>TOTAL - ALL AGENCY FUNDS</u>				
ASSETS:				
Cash in Bank	<u>\$ 929,861</u>	<u>\$ 411,269</u>	<u>\$ 303,410</u>	<u>\$ 1,037,720</u>
LIABILITIES:				
Due to Student Groups	<u>\$ 135,173</u>	<u>\$ 301,365</u>	<u>\$ 303,410</u>	<u>\$ 133,128</u>
Due to Other Organizations	<u>34,735</u>	<u>525</u>	<u>-</u>	<u>35,260</u>
Deposit Payable	<u>759,953</u>	<u>109,379</u>	<u>-</u>	<u>869,332</u>
	<u>\$ 929,861</u>	<u>\$ 411,269</u>	<u>\$ 303,410</u>	<u>\$ 1,037,720</u>

See accompanying notes to financial statements.



GLADSTONE AREA SCHOOLS

**SCHEDULE OF TAXABLE VALUATIONS,  
TAX RATES AND TAX LEVIES**

June 30, 2018

	<u>Taxable Valuation</u>	<u>Per \$1,000 Valuation</u>	<u>Tax Levy</u>
<b>GENERAL FUND:</b>			
(on Non-Homestead taxable valuation only)			
City of Gladstone	\$ 40,108,437	18.0000	\$ 721,952
Escanaba Township	25,821,936	18.0000	464,795
Brampton Township	5,415,143	18.0000	97,473
<b>TOTALS</b>	<u><u>\$ 71,345,516</u></u>	<u><u>18.0000</u></u>	<u><u>\$ 1,284,219</u></u>
(on commercial personal property)			
City of Gladstone	\$ 2,213,121	6.00	\$ 13,279
Escanaba Township	104,340	6.00	626
Brampton Township	86,699	6.00	520
<b>TOTALS</b>	<u><u>\$ 2,404,160</u></u>	<u><u>6.00</u></u>	<u><u>\$ 14,425</u></u>
<b>DEBT RETIREMENT FUNDS:</b>			
(on total taxable valuation)			
City of Gladstone	\$ 107,101,154	6.20	\$ 664,027
Escanaba Township	111,271,952	6.20	689,886
Brampton Township	27,883,886	6.20	172,880
<b>TOTALS</b>	<u><u>\$ 246,256,992</u></u>	<u><u>6.20</u></u>	<u><u>\$ 1,526,793</u></u>

See accompanying notes to financial statements.



**COMPLIANCE SECTION**









**ANDERSON, TACKMAN & COMPANY, PLC**  
Certified Public Accountants

Kristine P. Berhow, CPA, Principal  
Brandy M. Olson, CPA, Principal  
Kathleen A. Ciantar, CPA, Principal

*"A Regional Firm With Offices in Michigan and Wisconsin"*

Alan M. Stotz, CPA

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

To the Board of Education  
Gladstone Area Schools  
Gladstone, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gladstone Area Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Gladstone Area Schools' basic financial statements, and have issued our report thereon dated October 29, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Gladstone Area Schools' 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 Gladstone Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Gladstone Area Schools' 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 Gladstone Area Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.







### **Purpose of this Report**

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

*Anderson, Tackman & Company P.C.*

Certified Public Accountants  
Escanaba, Michigan

October 29, 2018



