
River School - Sodus Township #5

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

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Independent Auditor's Report

To the Board of Education
River School - Sodus Township #5

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of River School - Sodus Township #5 (the "School District") as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise River School - Sodus Township #5's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of River School - Sodus Township #5 as of June 30, 2018 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

To the Board of Education
River School - Sodus Township #5

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the major fund budgetary comparison schedules, and the pension and OPEB system schedules of funding progress and employer contributions, as disclosed 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2018 on our consideration of River School - Sodus Township #5's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering River School - Sodus Township #5's internal control over financial reporting and compliance.



October 25, 2018

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

Independent Auditor's Report

To Management and the Board of Education
River School - Sodus Township #5

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of River School - Sodus Township #5 (the "School District") as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 25, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described below, that we consider to be a significant deficiency in internal control over financial reporting.

During our audit testing, we noted the lack of segregation of duties relating to the handling of cash. As a result of the audit procedures performed related to cash, several deficiencies were identified. One individual in particular can receive cash, prepare the deposit slip, record the receipts in the general ledger, make transfers, and make manual journal entries to the general ledger. We recommend that another employee of the School District who does not have access to the general ledger (or has read-only access) review the journal entries on a monthly basis. We also recommend that a cash receipts log be maintained by an individual independent of accounting. We also recommend that an individual approve cash transfers before the transfers are completed.

To Management and the Board of Education
River School - Sodus Township #5

Compliance and Other Matters

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

The School District's Response to the Finding

The School District's response to the finding identified in our audit is that the segregation of duties issues identified will continue to occur based on the size of the School District, as it does not have the personnel to create proper segregation of duties. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Plante & Moran, PLLC

October 25, 2018

This section of River School - Sodus Township #5's (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2018. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those financial statements. These statements are organized so the reader can understand River School - Sodus Township #5 financially as a whole. The government-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term, as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds, the General Fund and special revenue fund. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. This report is composed of the following elements:

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

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

Required Supplemental Information

Budgetary Information for Major Fund

Schedules of Proportionate Share of the Net Pension and OPEB Liabilities

Schedules of Pension and OPEB Contributions

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

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

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

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

River School - Sodus Township #5

Management's Discussion and Analysis (Continued)

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

The School District's fund financial statements provide detailed information about the School District's individual funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes other funds to help it control and manage money for particular purpose, such as the Food Service Fund.

Governmental Funds

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

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

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

	Governmental Activities	
	2018	2017
	(in thousands)	
Assets		
Current and other assets	\$ 472.2	\$ 421.0
Capital assets	91.1	87.8
Total assets	563.3	508.8
Deferred Outflows of Resources	272.7	199.0
Liabilities		
Current liabilities	46.9	49.2
Net pension liability	1,026.8	992.1
Net OPEB liability	350.6	-
Total liabilities	1,424.3	1,041.3
Deferred Inflows of Resources	200.3	143.9
Net Position		
Net investment in capital assets	91.1	87.8
Unrestricted	(879.7)	(565.2)
Total net position	\$ (788.6)	\$ (477.4)

River School - Sodus Township #5

Management's Discussion and Analysis (Continued)

The above analysis focuses on net position. The change in net position of the School District's governmental activities is discussed below. The School District's net position was \$(788.6) thousand at June 30, 2018. Net investment in capital assets totaling \$91.1 thousand measures the original cost, less depreciation of the School District's capital assets. The remaining amount of net position, \$(879.7) thousand, was unrestricted.

The \$(879.7) thousand in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance enables the School District to meet working capital and cash flow requirements, as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

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

	Governmental Activities	
	2018	2017
	(in thousands)	
Revenue		
Program revenue - Operating grants and contributions	\$ 179.9	\$ 168.1
General revenue:		
Property taxes	27.2	27.4
State aid not restricted to specific purposes	543.4	543.5
Other	5.3	21.9
Total revenue	755.8	760.9
Expenses		
Instruction	410.1	438.2
Support services	244.1	241.9
Food services	44.2	48.8
Depreciation expense (unallocated)	14.2	13.4
Total expenses	712.6	742.3
Change in Net Position	43.2	18.6
Net Position - Beginning of year, as previously reported	(477.4)	(496.0)
Cumulative Effect of Change in Accounting Principle	(354.4)	-
Net Position - Beginning of year	(831.8)	(496.0)
Net Position - End of year	\$ (788.6)	\$ (477.4)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$712.6 thousand. Certain activities were partially funded from those who benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions (\$179.9 thousand). We paid for the remaining "public benefit" portion of our governmental activities with \$27.2 thousand in taxes, \$543.4 thousand in state foundation allowance, and with our other revenue.

The School District experienced a increase in net position of \$43.2 thousand.

As required by the Governmental Accounting Standards Board (GASB), the School District adopted GASB Statement No. 75. This standard required the inclusion of the School District's proportionate share of the Michigan Public School Employees' Retiree Health Care Plan within the School District's financial statements, effective July 1, 2017. The effect of the adoption was to decrease July 1, 2017 beginning net position by \$354.4 thousand and to include the net OPEB obligation and related deferred inflows and outflows of resources in the June 30, 2018 financial statements. All governments participating in the plan were required to adopt this new standard.

River School - Sodus Township #5

Management's Discussion and Analysis (Continued)

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

The School District's Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$425.3 thousand, which is an increase of \$69.4 thousand from last year.

General Fund fund balance is available to fund costs related to allowable school operating purposes.

General Fund Budgetary Highlights

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

There were revisions made to the 2017-2018 General Fund original budget. The budget was amended to account for changes in state aid revenue.

During the year, the School District incurred expenditures in the General Fund that were in excess of the amounts budgeted for basic programs. See Note 3 for further information.

Capital Assets

As of June 30, 2018, the School District had \$91,098 invested in a broad range of capital assets, including land, buildings, furniture, and equipment.

	2018	2017
Land	\$ 10,000	\$ 10,000
Buildings and improvements	335,253	317,773
Furniture and equipment	70,900	70,900
Site improvements	28,476	28,476
Total capital assets	444,629	427,149
Less accumulated depreciation	353,531	339,356
Net capital assets	<u>\$ 91,098</u>	<u>\$ 87,793</u>

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2018-2019 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2018-2019 budget was adopted in June 2018 based on an estimate of students who will enroll in September 2018. Approximately 85.0 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2018 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2018-2019 budget. Once the final student count and related per pupil funding is validated, state law requires the School District to amend the budget if actual school district resources are not sufficient to fund original appropriations.

River School - Sodus Township #5

Management's Discussion and Analysis (Continued)

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

Contacting the School District's Management

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

River School - Sodus Township #5

Statement of Net Position

June 30, 2018

	Governmental Activities
Assets	
Cash and investments (Note 4)	\$ 330,381
Due from other governmental units	141,897
Capital assets - Net (Note 5)	<u>91,098</u>
Total assets	563,376
Deferred Outflows of Resources	
Deferred pension costs (Note 7)	253,481
Deferred OPEB costs (Note 7)	<u>19,184</u>
Total deferred outflows of resources	272,665
Liabilities	
Accounts payable	2,826
Accrued payroll and other liabilities	44,113
Noncurrent liabilities:	
Net pension liability (Note 7)	1,026,829
Net OPEB liability (Note 7)	<u>350,559</u>
Total liabilities	1,424,327
Deferred Inflows of Resources	
Revenue on support of pension contributions made subsequent to the report date (Note 7)	40,831
Deferred pension costs (Note 7)	145,660
Deferred OPEB costs (Note 7)	<u>13,778</u>
Total deferred inflows of resources	<u>200,269</u>
Net Position	
Net investment in capital assets	91,098
Unrestricted	<u>(879,653)</u>
Total net position	<u><u>\$ (788,555)</u></u>

River School - Sodus Township #5

Statement of Activities

Year Ended June 30, 2018

	Program Revenue			Governmental
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs				
Primary government - Governmental activities:				
Instruction	\$ 410,046	\$ -	\$ 133,759	\$ (276,287)
Support services	244,100	-	-	(244,100)
Food services	44,215	2,264	43,840	1,889
Depreciation expense (unallocated) (Note 5)	14,175	-	-	(14,175)
Total primary government	<u>\$ 712,536</u>	<u>\$ 2,264</u>	<u>\$ 177,599</u>	(532,673)
General revenue:				
Taxes - Property taxes, levied for general purposes				27,191
State aid not restricted to specific purposes				543,399
Interest and investment earnings				355
Other				5,010
Total general revenue				<u>575,955</u>
Change in Net Position				43,282
Net Position - Beginning of year, as previously reported				(477,436)
Cumulative Effect of Change in Accounting Principle (Note 2)				<u>(354,401)</u>
Net Position - Beginning of year, as restated				<u>(831,837)</u>
Net Position - End of year				<u>\$ (788,555)</u>

River School - Sodus Township #5

Governmental Funds Balance Sheet

June 30, 2018

	General Fund	Nonmajor Fund - Food Service Fund	Total Governmental Funds
Assets			
Cash and investments (Note 4)	\$ 330,029	\$ 352	\$ 330,381
Due from other governmental units	141,585	312	141,897
Total assets	<u>\$ 471,614</u>	<u>\$ 664</u>	<u>\$ 472,278</u>
Liabilities			
Accounts payable	\$ 2,826	\$ -	\$ 2,826
Accrued payroll and related liabilities	44,113	-	44,113
Total liabilities	46,939	-	46,939
Fund Balances - Unassigned	424,675	664	425,339
Total liabilities and fund balances	<u>\$ 471,614</u>	<u>\$ 664</u>	<u>\$ 472,278</u>

River School - Sodus Township #5

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position

June 30, 2018

Fund Balances Reported in Governmental Funds	\$ 425,339
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
Cost of capital assets	444,629
Accumulated depreciation	<u>(353,531)</u>
Net capital assets used in governmental activities	91,098
Net pension liability and related deferred inflows and outflows	(919,008)
Net OPEB liability and related deferred inflows and outflows	(345,153)
Revenue in support of pension contributions made subsequent to the measurement date is reported as a deferred inflow of resources in the statement of net position and is not reported in the funds	<u>(40,831)</u>
Net Position of Governmental Activities	<u><u>\$ (788,555)</u></u>

River School - Sodus Township #5

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

Year Ended June 30, 2018

	General Fund	Nonmajor Fund - Food Service Fund	Total Governmental Funds
Revenue			
Local sources	\$ 32,556	\$ 2,264	\$ 34,820
State sources	645,836	1,890	647,726
Federal sources	40,224	41,950	82,174
Interdistrict sources	5,827	-	5,827
Total revenue	724,443	46,104	770,547
Expenditures			
Current:			
Instruction	399,927	-	399,927
Support services	239,542	-	239,542
Food services	-	44,215	44,215
Capital outlay	17,480	-	17,480
Total expenditures	656,949	44,215	701,164
Excess of Revenue Over Expenditures	67,494	1,889	69,383
Other Financing Sources (Uses)			
Transfers in	-	2,000	2,000
Transfers out	(2,000)	-	(2,000)
Total other financing (uses) sources	(2,000)	2,000	-
Net Change in Fund Balances	65,494	3,889	69,383
Fund Balances - Beginning of year	359,181	(3,225)	355,956
Fund Balances - End of year	\$ 424,675	\$ 664	\$ 425,339

River School - Sodus Township #5

Governmental Funds

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

Year Ended June 30, 2018

Net Change in Fund Balance Reported in Governmental Funds	\$ 69,383
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capitalized capital outlay	17,480
Depreciation expense	<u>(14,175)</u>
Total	3,305
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds until it is available	(15,846)
Revenue in support of pension contributions made subsequent to the measurement date	(10,259)
Some employee costs (pension, OPEB) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	<u>(3,301)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 43,282</u></u>

River School - Sodus Township #5

Fiduciary Funds
Statement of Fiduciary Assets and Liabilities

June 30, 2018

	Student Activities Agency Fund
Assets - Cash and investments (Note 4)	<u>\$ 3,722</u>
Liabilities - Due to student groups	<u>\$ 3,722</u>

Note 1 - Nature of Business

River School - Sodus Township #5 (the "School District") is a school district in the state of Michigan that provides educational services to students.

Note 2 - Significant Accounting Policies

Accounting and Reporting Principles

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

Reporting Entity

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

Report Presentation

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

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

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

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

Basis of Accounting

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

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

Note 2 - Significant Accounting Policies (Continued)

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the School District considers amounts collected within 60 days of year end to be available for recognition. Revenue not meeting this definition is classified as a deferred inflow of resources.

Fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows.

Fund Accounting

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

Governmental Funds

Governmental funds include all activities that provide general governmental services that are not business-type activities. Governmental funds can include the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds. The School District reports the following fund as a major governmental fund:

- The General Fund is the School District's primary operating fund because it accounts for all financial resources used to provide government services other than those specifically assigned to another fund.

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

- Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes. The School District's special revenue fund is the Food Service Fund. Any operating deficit generated by this activity is the responsibility of the General Fund.

Fiduciary Funds

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts are not used to operate the School District's programs. The School District maintains the Student Activities Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Interfund Activity

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

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

Note 2 - Significant Accounting Policies (Continued)

Specific Balances and Transactions

Cash and Investments

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

Capital Assets

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

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

	Depreciable Life - Years
Buildings and improvements	20 to 50 years
Furniture and equipment	5 to 10 years
Site improvements	10 to 20 years

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until then.

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

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

Net Position

Net position of the School District is classified in two components. Net investment in capital assets - net of related debt consists of capital assets net of accumulated depreciation and are reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Note 2 - Significant Accounting Policies (Continued)

Net Position Flow Assumption

The School District will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions

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

Fund Balance Policies

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

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

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

Property Tax Revenue

Property taxes are levied on each December 1 and become an enforceable lien at that time; the tax is based on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed. All property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts are recorded.

Note 2 - Significant Accounting Policies (Continued)

Grants and Contributions

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

Pension and Other Postemployment Benefit (OPEB) Plans

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

Use of Estimates

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

Adoption of New Accounting Pronouncement

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

In accordance with the statement, the School District has reported a net OPEB liability of \$369,762, deferred outflows of financial resources for OPEB contributions of \$26,737 made subsequent to the measurement date, and deferred inflows of financial resources for revenue received from state aid in support of OPEB contributions of \$11,376 that was received subsequent to the measurement date, as the effects of this change in accounting principles on the School District's net position as of July 1, 2017.

Upcoming Accounting Pronouncement

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2020.

June 30, 2018

Note 3 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and special revenue fund, except that the budget statement presentation reports capital outlay expenditures as they are budgeted functionally. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The budget was amended to increase basic program instruction expenditures.

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

Excess of Expenditures Over Appropriations in Budgeted Funds

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

	Budget	Actual
Instruction - Basic programs	\$ 262,640	\$ 293,175

Note 4 - Deposits and Investments

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

The School District has designated one bank for the deposit of its funds.

The School District's cash is subject to types of risk, which are examined in more detail below.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At year end, the School District had \$112,686 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 5 - Capital Assets

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

Governmental Activities

	Balance July 1, 2017	Additions	Disposals and Adjustments	Balance June 30, 2018
Capital assets not being depreciated - Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Capital assets being depreciated:				
Buildings and improvements	317,773	17,480	-	335,253
Furniture and equipment	70,900	-	-	70,900
Site improvements	28,476	-	-	28,476
Subtotal	417,149	17,480	-	434,629
Accumulated depreciation:				
Buildings and improvements	244,571	12,606	-	257,177
Furniture and equipment	70,900	-	-	70,900
Site improvements	23,885	1,569	-	25,454
Subtotal	339,356	14,175	-	353,531
Net capital assets being depreciated	77,793	3,305	-	81,098
Net governmental activities capital assets	<u>\$ 87,793</u>	<u>\$ 3,305</u>	<u>\$ -</u>	<u>\$ 91,098</u>

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

Note 6 - Risk Management

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

Note 7 - Michigan Public School Employees' Retirement System

Plan Description

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

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

June 30, 2018

Note 7 - Michigan Public School Employees' Retirement System (Continued)

Benefits Provided

Benefit provisions of the defined benefit (DB) pension plan and the postemployment healthcare plan are established by state statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan and the postemployment healthcare plan.

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

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

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

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

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

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

Contributions

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

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

June 30, 2018

Note 7 - Michigan Public School Employees' Retirement System (Continued)

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

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

The range of rates is as follows:

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

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

The School District's required and actual pension contributions to the plan for the year ended June 30, 2018 were \$110,732, which include the School District's contributions required for those members with a defined contribution benefit. The School District's required and actual pension contributions include an allocation of \$40,831 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended June 30, 2018. For the year ended June 30, 2018, the contributions also include a one-time payment to the School District received under Section 147c(2) of the State Aid Act, which the School District then remitted as a contribution to the plan.

The School District's required and actual OPEB contributions to the plan for the year ended June 30, 2018 were \$25,733, which include the School District's contributions required for those members with a defined contribution benefit.

Net Pension Liability

At June 30, 2018, the School District reported a liability of \$1,026,829 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016, which used updated procedures to roll forward the estimated liability to September 30, 2017. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the School District's proportion was 0.00396 percent and 0.00398 percent, respectively.

June 30, 2018

Note 7 - Michigan Public School Employees' Retirement System (Continued)

Net OPEB Liability

At June 30, 2018, the School District reported a liability of \$350,559 for its proportionate share of the net OPEB liability. The net OPEB liability for fiscal year 2018 was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016, which used updated procedures to roll forward the estimated liability to September 30, 2017. The School District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the School District's proportion was 0.00396 percent.

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

For the year ended June 30, 2018, the School District recognized pension expense of \$98,973, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 8,924	\$ (5,038)
Changes in assumptions	112,497	-
Net difference between projected and actual earnings on pension plan investments	-	(49,089)
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	46,766	(91,533)
The School District's contributions to the plan subsequent to the measurement date	85,294	-
Total	<u>\$ 253,481</u>	<u>\$ (145,660)</u>

The \$40,831 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to the UAAL payment will be recognized as state appropriations revenue for the year ended June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending	Amount
2019	\$ 11,247
2020	21,217
2021	(6,148)
2022	<u>(3,789)</u>
Total	<u>\$ 22,527</u>

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

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

For the year ended June 30, 2018, the School District recognized OPEB expense of \$23,017.

June 30, 2018

Note 7 - Michigan Public School Employees' Retirement System (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (3,732)
Net difference between projected and actual earnings on OPEB plan investments	-	(8,119)
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	-	(1,927)
Employer contributions to the plan subsequent to the measurement date	19,184	-
Total	<u>\$ 19,184</u>	<u>\$ (13,778)</u>

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

Years Ending	Amount
2019	\$ (3,295)
2020	(3,295)
2021	(3,295)
2022	(3,295)
2023	(598)
Total	<u>\$ (13,778)</u>

Actuarial Assumptions

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

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

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

Discount Rate

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

June 30, 2018

Note 7 - Michigan Public School Employees' Retirement System (Continued)

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

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.00 %	5.60 %
Private equity pools	18.00	8.70
International equity pools	16.00	7.20
Fixed-income pools	10.50	(0.10)
Real estate and infrastructure pools	10.00	4.20
Real return, opportunistic, and absolute pools	15.50	5.00
Short-term investment pools	2.00	(0.90)
Total	100.00 %	

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

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

The following presents the net pension liability of the School District, calculated using the discount rate depending on the plan option. The following also reflects what the School District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.00 - 6.50%)	Current Discount Rate (7.00-7.50%)	1 Percent Increase (8.00 - 8.50%)
Net pension liability of the School District	\$ 1,337,616	\$ 1,026,829	\$ 765,165

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

The following presents the net OPEB liability of the School District, calculated using the current discount rate. It also reflects what the School District's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.50%)	Current Discount Rate (7.50%)	1 Percent Increase (8.50%)
Net OPEB liability of the School District	\$ 410,606	\$ 350,559	\$ 299,598

June 30, 2018

Note 7 - Michigan Public School Employees' Retirement System (Continued)

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

The following presents the net OPEB liability of the School District, calculated using the current healthcare cost trend rate. It also reflects what the School District's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.50%)	Current Discount Rate (7.50%)	1 Percent Increase (8.50%)
Net OPEB liability of the School District	\$ 296,876	\$ 350,559	\$ 411,512

Pension Plan and OPEB Plan Fiduciary Net Position

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

Payable to the Pension Plan and OPEB Plan

At June 30, 2018, the School District reported amounts payable of \$12,176 and \$2,049 for the outstanding amounts of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2018.

Required Supplemental Information

River School - Sodus Township #5

Required Supplemental Information
Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 31,600	\$ 32,267	\$ 32,556	\$ 289
State sources	621,344	645,653	645,836	183
Federal sources	24,394	26,944	40,224	13,280
Interdistrict sources	2,000	5,826	5,827	1
Total revenue	679,338	710,690	724,443	13,753
Expenditures				
Current:				
Instruction:				
Basic programs	278,031	262,640	293,175	30,535
Added needs	111,068	113,628	106,752	(6,876)
Support services:				
General administration	25,500	21,850	21,934	84
School administration	158,427	202,923	158,162	(44,761)
Operations and maintenance	63,000	82,400	76,926	(5,474)
Total expenditures	636,026	683,441	656,949	(26,492)
Excess of Revenue Over Expenditures	43,312	27,249	67,494	40,245
Other Financing Uses - Transfers out	-	-	(2,000)	(2,000)
Net Change in Fund Balance	43,312	27,249	65,494	38,245
Fund Balance - Beginning of year	359,181	359,181	359,181	-
Fund Balance - End of year	<u>\$ 402,493</u>	<u>\$ 386,430</u>	<u>\$ 424,675</u>	<u>\$ 38,245</u>

River School - Sodus Township #5

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

	Last Four Plan Years			
	Plan Years Ended September 30			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School District's proportion of the net pension liability	0.00396 %	0.00398 %	0.00457 %	0.00406 %
School District's proportionate share of the net pension liability	\$ 1,026,829	\$ 992,102	\$ 1,116,649	\$ 894,470
School District's covered employee payroll	\$ 331,989	\$ 337,616	\$ 387,540	\$ 351,998
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	309.30 %	293.86 %	288.14 %	254.11 %
Plan fiduciary net position as a percentage of total pension liability	63.96 %	63.01 %	62.92 %	66.20 %

River School - Sodus Township #5

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

	Last Four Fiscal Years			
	Years Ended June 30			
	2018	2017	2016	2015
Statutorily required contribution	\$ 101,081	\$ 97,696	\$ 118,831	\$ 76,871
Contributions in relation to the statutorily required contribution	<u>101,081</u>	<u>97,696</u>	<u>118,831</u>	<u>76,871</u>
Contribution Deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's Covered Employee Payroll	\$ 333,815	\$ 352,729	\$ 340,793	\$ 386,116
Contributions as a Percentage of Covered Employee Payroll	30.28 %	27.70 %	34.87 %	19.91 %

River School - Sodus Township #5

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

	Last Plan Year
	Plan Year Ended September 30
	<u>2017</u>
School District's proportion of the net OPEB liability	0.00396 %
School District's proportionate share of the net OPEB liability	\$ 350,559
School District's covered employee payroll	\$ 331,989
School District's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	105.59 %
Plan fiduciary net position as a percentage of total OPEB liability	36.53 %

River School - Sodus Township #5

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

	Last Fiscal Year
	Year Ended June 30
	<u>2018</u>
Statutorily required contribution	\$ 24,111
Contributions in relation to the statutorily required contribution	<u>24,111</u>
Contribution Deficiency	<u>\$ -</u>
School District's Covered Employee Payroll	\$ 333,815
Contributions as a Percentage of Covered Employee Payroll	7.22 %

Pension Information

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

Benefit Changes

There were no changes of benefit terms in 2017.

Changes in Assumptions

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

Covered Payroll

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

OPEB Information

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

Benefit Changes

There were no changes of benefit terms in 2017.

Changes in Assumptions

There were no changes of benefit assumptions in 2017.

Covered Payroll

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