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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Ewen-Trout Creek Consolidated School District
Ewen, 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 Ewen-Trout Creek Consolidated School District as of and for the year then ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 Ewen-Trout Creek Consolidated School District as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A to the basic financial statements, the District adopted Governmental Accounting Standards Board statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions. Accordingly, beginning net position of governmental activities was restated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension requirements on pages 6 through 12 and 40 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The additional information on pages 45 to 49 are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional information on pages 45 to 49 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 information is 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 a report dated October 29, 2018 on our consideration of the Ewen-Trout Creek Consolidated School District'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 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 Ewen-Trout Creek Consolidated School District internal control over financial reporting and compliance.

*Rukkila, Negro and Associates,
Certified Public Accountants, PC*

October 29, 2018

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

This section of Ewen-Trout Creek Consolidated School District's annual financial report presents management's discussion and analysis of the District's financial performance during the year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follows this section.

Financial Highlights

The Ewen-Trout Creek Consolidated School District administration and Board of Education continues to steer a conservative fiscal course with a goal to ensure the district will not enter in to a deficit situation. Ewen-Trout Creek Consolidated School District begins the 2018-19 school year with a \$495,496 general fund balance, which will amount to about 20% of annual general fund expenses.

School administration will continue to recommend budgets that aim to maintain a fund balance that is equal to, or exceeds, 15% of annual expenses. The school administration and Board Negotiations Committee will be bargaining both the Education Association and Support Staff contracts during the 2018-19 school year. Employee compensation at the Ewen-Trout Creek Consolidated School District, while historically has lagged behind districts throughout the region, is now relatively competitive with the school districts that comprise the Gogebic-Ontonagon Intermediate School District and with districts of similar demographics throughout the Upper Peninsula.

Ewen-Trout Creek Consolidated School District continues to benefit from the Michigan Schools of Choice program and has maintained a K-12 enrollment of approximately 200 students over the past four years. However, the unaudited student count for 2018-19 has fallen below 200. With our community's struggling economy, declining enrollment continues to be a concern for our District. The district faces the same economic challenges as the other school systems in the Gogebic-Ontonagon Intermediate School District and will need to remain vigilant to safeguard the district's finances. The administration plans to use financial and personnel resources in a strategic manner to maximize educational opportunities for students.

The district is vulnerable to sudden and dramatic declines in revenues as a consequence of heavy dependence upon potentially unreliable streams that include Federal "Impact Aid" and that generated by the "Safe and Secure Rural Schools Act". The perceived discretionary portion of these two sources of revenue together amount to about 13% of the district's current annual budgeted revenue. Efforts to control expanding federal deficits conceivably could reduce or even eliminate such district revenue sources sometime in the future.

The district is now in a financial position that enables it to address building and property maintenance needs that have been deferred over the past 3-5 years. The administration recommends creating a prioritized maintenance schedule to address needs that can be managed within the parameters of the school district's general fund budget, while having a minimal impact on the fund balance.

All of the above suggests an ongoing need for a very conservative fiscal approach that will entail: maintenance of at least a 15% fund balance, ongoing downsizing where practicable, looking for savings at every juncture, and limiting all discretionary expenses for the foreseeable future.

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

Overview of the Financial Statements

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Position and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

Statement of Net Position and the Statement of Activities

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The District's net position and the changes in the net position during the year are reported by these two statements. Increases or decreases in the District's net position is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- The Statement of Fiduciary Assets and Liabilities, presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents.

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

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including the Debt Service Fund, School Service, and Capital Project Funds.

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

Overview of the Financial Statements (Continued)

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund and Debt Service Fund meet this requirement.

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller funds. Detailed information about non-major funds can be found after the notes to the financial statements.

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management's Discussion and Analysis, provides information about the required budgetary comparison information on the General Fund.
- Other supplementary information provides detailed information about the General, Debt Service, and School Service Funds.

Summary of Net Position

	<u>2018</u>	<u>2017</u>
Assets		
Current and other assets	\$ 886,555	\$ 1,032,432
Restricted cash and investments	71,884	100,434
Capital assets - net	<u>9,635,263</u>	<u>9,868,140</u>
Total assets	<u>10,593,702</u>	<u>11,001,006</u>
Deferred outflows of resources	700,141	471,318
Liabilities		
Current liabilities	298,992	312,342
Long-term liabilities	7,120,993	7,686,023
Net pension liability	3,284,890	3,169,275
Net OPEB liability	<u>1,124,125</u>	<u>1,185,703</u>
Total liabilities	<u>11,829,000</u>	<u>12,353,343</u>
Deferred inflows of resources	224,642	18,338
Net position		
Net investment in capital assets	2,526,122	2,177,299
Restricted		
Debt service	153,263	170,259
Capital projects	49,933	1,898,010
Food service	2,518	1,838
Unrestricted	<u>(3,491,635)</u>	<u>(5,146,763)</u>
Total net position	<u>\$ (759,799)</u>	<u>\$ (899,357)</u>

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

Overview of the Financial Statements (Continued)

Results of Operations in Governmental Activities		
	<u>2018</u>	<u>2017</u>
Program Revenues		
Charges for services	\$ 57,052	\$ 68,648
Operating grants and contributions	755,958	654,784
General Revenues		
Taxes	1,986,765	1,855,920
State foundation allowance	470,968	459,503
Interest	4,350	7,802
Transfers	11,963	45,538
Special item - sale of fixed assets	3,570	511
Other	47,352	67,117
Total revenues	<u>3,337,978</u>	<u>3,159,823</u>
Functions/program expenses		
Instruction	1,892,132	1,810,710
Supporting services	814,362	797,976
Food Service	112,843	143,329
Athletics	84,805	100,051
Community services	110,305	169,776
Interest expense	183,345	200,605
Other expense	628	3,202
Total expenses	<u>3,198,420</u>	<u>3,225,649</u>
Change in net position	139,558	(65,826)
Net position - Beginning	<u>(899,357)</u>	<u>(833,531)</u>
Net position - Ending	<u>\$ (759,799)</u>	<u>\$ (899,357)</u>

See Note A, new accounting standard, of this report for additional information of the implementation of GASB No. 75 and the corresponding restatement of the beginning net position for the governmental activities.

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

Overview of the Financial Statements (Continued)

The following table highlights the District's General Fund activities:

	2018	% of total	2017	% of total
Revenues				
Taxes	\$ 1,239,145	49.9 %	\$ 1,227,768	51.0 %
Penalties and interest	5,703	0.2 %	6,293	0.3 %
Other local sources	110,510	4.5 %	139,114	5.8 %
Other financing sources	11,963	0.5 %	45,538	1.9 %
Federal sources	455,603	18.4 %	375,694	15.6 %
State sources	658,542	26.5 %	613,974	25.4 %
Total revenues	\$ 2,481,466	100.0 %	\$ 2,408,381	100.0 %
Expenditures				
Pupil transportation	\$ 206,611	8.2 %	\$ 259,666	10.6 %
Pupil	8,566	0.3 %	2,061	0.1 %
Instructional staff	6,088	0.2 %	19,595	0.8 %
General administration	74,618	3.0 %	70,030	2.9 %
Instruction	1,597,152	63.2 %	1,478,037	60.2 %
School administration	137,396	5.4 %	126,312	5.1 %
Business-fiscal services	106,705	4.2 %	118,474	4.8 %
Athletics	84,805	3.4 %	100,051	4.1 %
Operations & maintenance	268,901	10.6 %	254,797	10.4 %
Technical support	21,714	0.9 %	20,315	0.8 %
Operating transfers out	15,000	0.6 %	5,358	0.2 %
Total expenditures	\$ 2,527,556	100.0 %	\$ 2,454,696	100.0 %

Significant Transactions and Changes in Individual Funds

A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	2018	2017	Change
General Fund			
Revenues/Transfers	\$ 2,481,466	\$ 2,408,381	\$ 73,085
Expenditures/Transfers	\$ 2,512,556	\$ 2,449,338	\$ 63,218
Fund Balance	\$ 495,680	\$ 541,770	\$ (46,090)
Debt Service Fund			
Revenues/Transfers	\$ 748,677	\$ 629,401	\$ 119,276
Expenditures/Transfers	\$ 765,673	\$ 699,812	\$ 65,861
Fund Balance	\$ 153,263	\$ 170,259	\$ (16,996)
School Service Fund			
Revenues/Transfers	\$ 122,114	\$ 124,280	\$ (2,166)
Expenditures/Transfers	\$ 112,221	\$ 137,882	\$ (25,661)
Fund Balance	\$ (10,288)	\$ (20,181)	\$ 9,893
Capital Projects Fund			
Revenues/Transfers	\$ 721	\$ 3,619	\$ (2,898)
Expenditures/Transfers	\$ 110,305	\$ 1,742,112	\$ (1,631,807)
Fund Balance	\$ -	\$ 159,517	\$ (159,517)

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

Significant Transactions and Changes in Individual Funds (Continued)

General Fund: There was an increase in revenue. Local sources had a net increase of \$16,375, a majority being from property tax revenue. State sources increased by \$44,568 comprising of increases in both unrestricted and restricted sources. Federal revenue had increased by \$79,909, mainly due to Title I, Title IV, REAP, and Ottawa National Forest.

The District experienced an increase in instructional services expenditures of \$119,000 and a decrease in supporting services of \$55,885 from the previous year.

Debt Service Fund: The major change in the debt retirement accounts is the ending of a millage for the bus/sidewalk debt fund in revenue and expenditures. The tax millage for the District's 2012 Debt Refunding and 2016 Debt Funds is 6.6000 mills.

School Service Fund: The net decrease in the food service program was from a decrease in all areas of revenue.

Capital Projects Fund: The capital projects fund expenditures reports a majority of the expenditures for the building renovations and a school bus purchase.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the annual budget prior to the start of the fiscal year on July 1. Any amendments to the original budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the fiscal year ended June 30, 2018, the original budget was adopted in June 2017. The original budget is adopted two months before school is in session. We have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances.

	Budgeted Amounts		Actual	Variance Final	% Variance
	Original	Final		to Actual	
Revenues	\$ 2,144,572	\$ 2,458,730	\$ 2,465,933	\$ 7,203	0.3 %
Expenditures					
Instruction	\$ 1,403,716	\$ 1,589,275	\$ 1,597,152	\$ (7,877)	(0.5)%
Supporting services	884,673	931,652	915,404	16,248	1.7 %
Total expenditures	\$ 2,288,389	\$ 2,520,927	\$ 2,512,556	\$ 8,371	0.3 %
Other financing sources (uses)	\$ (37,720)	\$ 532	\$ 533	\$ 1	0.2 %

Revenue budget had an increase from the original to the final in the amount of \$265,779 which represents increases in local, state, and federal revenue.

Instructional expenditure budget was increased by \$184,539 from the original to final budget. The final budget to actual had a variance of \$8,897 comprised of increases in instruction spending.

Supporting services expenditure budget was increased by \$46,195 from the original to final budget. The original budget was increased in pupil, general administration, school administration, operations and maintenance, technical support, and athletics. Decreases were noted in instructional staff, business services, and transportation expenditures. The final budget to actual variance of \$15,452 was in basically all areas of supporting services.

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

Capital Assets and Debt Administration

Capital Assets – A bus was purchased on June 13, 2018 for \$81,388. Depreciation expense totaled \$314,265.

Additional information on the District’s capital assets can be found on page 26 of this report.

Long-term Debt – At the end of the current fiscal year, the District’s total debt was \$7,080,000. This total amount is backed by the full faith and credit of the District. The District’s total debt decreased by \$580,000.

Additional information on the District’s long-term debt can be found on pages 27 through 29 of this report.

Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations

The table depicts a decrease of 3 students enrolled from the previous year, using the State Aid Membership Count.

Year	Student Total	Change
2013-14	240	5
2014-15	229	(11)
2015-16	217	(12)
2016-17	204	(13)
2017-18	201	(3)

State revenues received by Michigan school districts are approved annually in a State Aid Act. This Act, approved by the State Legislature, provides a foundation amount (amount per student) of \$7,631 for the 2017-18 school year.

Contacting the District’s Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District’s finances. If you have questions about this report or need additional information, contact the Superintendent, David Radovich, at Ewen-Trout Creek Consolidated School District, 14312 Airport Road, Ewen, Michigan 49925. Telephone number (906) 813-0620, fax (906) 813-0622, or email dradovich@etc.k12.mi.us.

EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2018

Assets	
Cash and cash equivalents	\$ 558,828
Taxes receivable	385
Accounts receivable	24,062
Due from governmental units	230,268
Prepaid expenses	65,000
Inventories	2,518
Restricted cash	71,884
Other current assets	5,494
Capital assets - Net	<u>9,635,263</u>
Total assets	<u>10,593,702</u>
Deferred outflows of resources	
Pension	620,006
OPEB	<u>80,135</u>
Total deferred outflows of resources	<u>700,141</u>
Liabilities	
Accounts payable	12,914
Accrued expenses and salaries payable	237,414
Due to fiduciary funds	13,857
Unearned revenue	5,666
Accrued interest	29,141
Bonds payable, due within one year	575,000
Bonds payable, due in more than one year	6,505,000
Compensated absences	40,993
Net pension liability	3,284,890
Net OPEB liability	<u>1,124,125</u>
Total liabilities	<u>11,829,000</u>
Deferred inflows of resources	
Pension	186,547
OPEB	<u>38,095</u>
Total deferred inflows of resources	<u>224,642</u>
Net position	
Net investment in capital assets	2,526,122
Restricted	
Debt service	153,263
Capital projects	49,933
Food service	2,518
Unrestricted	<u>(3,491,635)</u>
Total net position	<u>\$ (759,799)</u>

The accompanying notes to the financial statements are an integral part of this statement.

EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

	Program Revenues			Governmental Activities
<u>Functions/Programs</u>	<u>Basic program</u>	<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
Government Activities				
Instruction and instructional support	\$ 1,892,132	\$ 9,566	\$ 645,102	\$ (1,237,464)
Support services	814,362	-	3,000	(811,362)
School food service	112,843	23,089	83,935	(5,819)
Athletics	84,805	24,397	23,921	(36,487)
Capital projects	110,305	-	-	(110,305)
Interest on long-term debt	183,345	-	-	(183,345)
Other debt service	628	-	-	(628)
Total governmental activities	\$ 3,198,420	\$ 57,052	\$ 755,958	(2,385,410)
General revenues:				
				1,239,145
				741,575
				6,045
				470,968
				4,350
				47,352
				3,570
				11,963
				2,524,968
Change in net position				139,558
Net position - Beginning of year, restated				(899,357)
Net position - End of year				\$ (759,799)

The accompanying notes to the financial statements are an integral part of this statement.

EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2018

	<u>General Fund</u>	<u>Debt Retirement</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 404,576	\$ 74,871	\$ 79,381	\$ 558,828
Taxes receivable	-	385	-	385
Accounts receivable	23,992	-	70	24,062
Due from governmental units	228,665	629	974	230,268
Due from other funds	38,403	-	555	38,958
Inventories	-	-	2,518	2,518
Prepaid expenses	63,725	-	1,275	65,000
Other current assets	-	5,494	-	5,494
Restricted cash	-	71,884	-	71,884
Total assets	<u>\$ 759,361</u>	<u>\$ 153,263</u>	<u>\$ 84,773</u>	<u>\$ 997,397</u>
Liabilities				
Accounts payable	\$ 12,842	\$ -	\$ 72	\$ 12,914
Accrued expenses and salaries payable	230,761	-	6,653	237,414
Due to other funds	555	-	38,403	38,958
Due to fiduciary funds	13,857	-	-	13,857
Unearned revenue	5,666	-	-	5,666
Total liabilities	<u>263,681</u>	<u>-</u>	<u>45,128</u>	<u>308,809</u>
Fund balances				
Non-spendable				
Inventories	-	-	2,518	2,518
Prepays	63,725	-	-	63,725
Restricted				
Debt service	-	153,263	-	153,263
Capital projects	-	-	49,933	49,933
Food service	-	-	(12,806)	(12,806)
Unassigned	431,955	-	-	431,955
Total fund balances	<u>495,680</u>	<u>153,263</u>	<u>39,645</u>	<u>688,588</u>
Total liabilities and fund balances	<u>\$ 759,361</u>	<u>\$ 153,263</u>	<u>\$ 84,773</u>	<u>\$ 997,397</u>

The accompanying notes to the financial statements are an integral part of this statement.

EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET POSITION
June 30, 2018

Fund Balance Reported in Governmental Funds	\$ 688,588
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore are not reported in the funds	9,635,263
Net pension liability	(3,284,890)
Deferred outflows from the difference between pension changes of assumptions and contributions subsequent to the measurement date	620,006
Deferred inflows from the difference between projected and actual investment earnings of the pension plan	(186,547)
OPEB obligation	(1,124,125)
Deferred outflows from the difference between OPEB changes of assumptions and contributions subsequent to the measurement date	80,135
Deferred inflows from the difference between projected and actual investment earnings of the OPEB plan	(38,095)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(7,120,993)
Accrued interest is not included as a liability in governmental funds	<u>(29,141)</u>
Net position of governmental activities	<u><u>\$ (759,799)</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2018

	<u>General Fund</u>	<u>Debt Retirement</u>	<u>Non-Major Funds</u>	<u>Total</u>
Revenues				
Local sources	\$ 1,351,788	\$ 748,677	\$ 23,900	\$ 2,124,365
State sources	658,542	-	7,771	666,313
Federal sources	455,603	-	76,164	531,767
Total revenues	<u>2,465,933</u>	<u>748,677</u>	<u>107,835</u>	<u>3,322,445</u>
Expenditures				
Instruction	1,597,152	-	-	1,597,152
Supporting services	830,599	-	-	830,599
School service	-	-	112,221	112,221
Athletics	84,805	-	-	84,805
Capital projects	-	-	110,305	110,305
Debt service	-	765,673	-	765,673
Total expenditures	<u>2,512,556</u>	<u>765,673</u>	<u>222,526</u>	<u>3,500,755</u>
Excess (deficiency) of revenues over expenditures	<u>(46,623)</u>	<u>(16,996)</u>	<u>(114,691)</u>	<u>(178,310)</u>
Other financing sources (uses)				
Proceeds from the sale of capital assets	3,570	-	-	3,570
Operating transfers in (out)	(15,000)	-	15,000	-
Incoming transfers - other schools	11,963	-	-	11,963
Total other financing sources (uses)	<u>533</u>	<u>-</u>	<u>15,000</u>	<u>15,533</u>
Net change in fund balances	(46,090)	(16,996)	(99,691)	(162,777)
Fund balances - Beginning of year	<u>541,770</u>	<u>170,259</u>	<u>139,336</u>	<u>851,365</u>
Fund balances - End of year	<u>\$ 495,680</u>	<u>\$ 153,263</u>	<u>\$ 39,645</u>	<u>\$ 688,588</u>

The accompanying notes to the financial statements are an integral part of this statement.

EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds	\$	(162,777)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds do not record depreciation and report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation		(232,877)
Accrued expenses are recorded in the statement of activities when incurred; they are not reported in governmental funds until paid		(13,270)
The change in net pension liability amounts does not require the use of current resources and is not reported in the governmental funds		(86,612)
The change in OPEB obligation does not require the use of current resources and is not reported in the governmental funds		55,094
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		<u>580,000</u>
Change in net position of governmental activities	\$	<u><u>139,558</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF ASSETS AND LIABILITIES
June 30, 2018

	Student Activities
Assets	
Cash and investments	\$ 42,805
Due from scholarship fund	129
Due from other funds	13,857
Total assets	\$ 56,791
Liabilities	
Due to student groups	56,791
Total liabilities	\$ 56,791

The accompanying notes to the financial statements are an integral part of this statement.

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Ewen-Trout Creek Consolidated School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant District accounting policies are described below.

REPORTING ENTITY

The Ewen-Trout Creek Consolidated School District (the “District”) is governed by the Ewen-Trout Creek Consolidated School District Board of Education (the “Board”), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United State of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Numbers 14 and 39.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. All of the District’s government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues and are reported as general revenues.

In the government-wide statement of net position, the governmental activities column is presented on a consolidated basis 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 are reported in three parts – net investment in capital assets; restricted for debt service and special revenue funds; and unrestricted net position.

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 functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The District does allocate indirect costs.

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

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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

The District reports the following major 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. Athletic activities are reported in the General Fund.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Other Non-Major funds:

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific revenue sources such as the Capital Projects Fund and Food Service Fund.

Fiduciary Funds – Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are not included in the government-wide statements.

The Student Activities Fund is used to account for assets held by the District in a trustee capacity or as an agent for student activities and/or programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. This fund is used to account for assets that the District holds for others in an agency capacity (primary student activities).

Accrual Method – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

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

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

State Revenue - The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts and the local county treasurer. For the year ended June 30, 2018, the foundation allowance was based on pupil membership counts taken in February and October of previous years for a three year blended average.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

The District received approximately 19% of its General Fund revenue from the Michigan Department of Education Membership Allowance. Due to the significance of this revenue source to the District, the District is considered to be economically dependent.

Foundation		\$	7,631.00
Less Local Support:			
Assumed Local Revenue	\$ 1,225,708.00		
Divided by General Education k-12 membership	<u>201.28</u>		
Calculated Local Support			<u>(6,089.57)</u>
Foundation Grant Allowance Per Pupil		\$	<u><u>1,541.43</u></u>

Other Accounting Policies

Cash and Cash Equivalents – Cash and cash equivalents includes 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. Pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes – Property taxes levied by the District are collected by the various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and becomes a lien on the first day of the levy year.

For the year ended June 30, 2018, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund - Non-homestead	18.0000
Debt service fund - Homestead and non-homestead	6.6000

Receivables and Payables – Activity between funds are reported as “due to/from other funds.”

All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

Inventory – Inventory in the District’s Food Service Fund consist of food, a la carte items, and supplies totaling \$2,518. The District utilizes the consumption method of recording inventories of materials and food supplies. Under the consumption method, inventories are recorded as expenditures when they are used. Inventory is valued at lower of cost or market.

Capital Assets – Capital assets, which include land, buildings, equipment, land improvements, technology, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Compensated Absences – The liabilities for compensated absences reported in the district-wide statements in the amount of \$40,993 consisted of accrued sick leave. Accrued sick leave is paid to employees upon retirement and accrued only for employees that qualify for retirement.

Unemployment Insurance - The District reimburses the Unemployment Insurance Agency (UIA) for the actual amount of unemployment benefits disbursed by the UIA on behalf of the District. Billings received for amounts paid by the UIA through June 30 are accrued.

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Standard - In the current year, the District adopted the provisions of Governmental Accounting Standards Board (GASB) No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions. The objective of this statement is to improve accounting and financial reporting by state and local governmental for postemployment benefits other than pensions (OPEB).

As a result of implementing this statement the beginning net position of governmental activities was restated to \$(899,357), a reduction of \$1,137,179.

Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position - Deferred outflows are reported in a separate section following assets, and deferred inflows are reported in a separate section following liabilities. The statement of net position then arrives at net position which includes the net effects of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

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 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 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.

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

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

Subsequent Events - Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) enacted at a regular meeting by School Board approval. The Act provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.
5. Budget appropriations lapse at the end of the fiscal year.

In the body of the financial statements, the District’s actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, are noted in the required supplementary information section.

NOTE C - CASH AND CASH EQUIVALENTS

At year-end, the District’s cash deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the District is as follows:

	Governmental Funds	Student Activities	Total Primary Government
Unrestricted cash	\$ 558,828	\$ -	\$ 558,828
Restricted cash	71,884	42,805	114,689
Total cash and cash equivalents	<u>\$ 630,712</u>	<u>\$ 42,805</u>	<u>\$ 673,517</u>

Deposit Risk

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

Custodial Credit Risk - Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. State law does not require and the District does not have a policy for deposit custodial credit risk. As of June 30, 2018, \$161,950 of the District’s bank balance of \$799,957 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE C - CASH AND CASH EQUIVALENTS (Continued)

Michigan law authorizes the District to deposit and invest in:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bill or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
2. Certificates of deposits issued by the State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the Federal Deposit Insurance Corporation.
5. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
6. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

NOTE D - CAPITAL ASSETS

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

	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets, not being depreciated				
Land	\$ 3,500	\$ -	\$ -	\$ 3,500
Capital assets, being depreciated				
Buildings and additions	12,850,355	\$ -	\$ -	12,850,355
Improvements other than building	309,244	-	-	309,244
Technology	43,836	-	15,313	28,523
Equipment and furniture	377,183	-	4,737	372,446
Vehicles	652,975	81,388	68,740	665,623
Food service equipment	89,316	-	-	89,316
Subtotal	<u>14,322,909</u>	<u>\$ 81,388</u>	<u>\$ 88,790</u>	<u>14,315,507</u>
Accumulated depreciation				
Building and additions	3,273,453	\$ 257,008	\$ -	3,530,461
Improvements other than building	270,141	15,462	-	285,603
Technology	35,833	2,946	15,313	23,466
Equipment and furniture	330,292	6,456	4,737	332,011
Vehicles	459,232	32,393	68,740	422,885
Food service equipment	89,317	-	-	89,317
Subtotal	<u>4,458,269</u>	<u>\$ 314,265</u>	<u>\$ 88,790</u>	<u>4,683,744</u>
Net capital assets being depreciated	<u>9,864,640</u>			<u>9,631,763</u>
Net capital assets	<u>\$ 9,868,140</u>			<u>\$ 9,635,263</u>

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE D - CAPITAL ASSETS (Continued)

Depreciation expense was charged to activities of the District as follows:

Governmental activities	
Athletic	\$ 7,999
Instruction	257,104
Operations and maintenance	15,329
Pupil transportation	33,833
Total governmental	<u>\$ 314,265</u>

NOTE E - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. There were not transfers during the fiscal year. The amounts of inter-fund receivables and payables as of June 30, 2018 are as follows:

<u>Fund</u>	<u>Inter-fund Receivable</u>	<u>Fund</u>	<u>Inter-fund Payable</u>
General Fund	<u>\$ 38,403</u>	Food Service Fund	<u>\$ 38,403</u>
<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
Food Service Fund	<u>\$ 15,000</u>	General Fund	<u>\$ 15,000</u>

Fiduciary Fund has amounts due from the Athletic Fund of \$13,857.

NOTE F - ACCRUED EXPENDITURES & SALARIES PAYABLES

Accrued liabilities as of June 30, 2018, for the District's governmental funds individual major fund and non-major funds in the aggregate, are as follows:

<u>Accrued liabilities</u>	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Total</u>
Salaries payable	\$ 153,324	\$ 3,162	\$ 156,486
Accrued expenditures	77,437	3,491	80,928
Total accrued liabilities	<u>\$ 230,761</u>	<u>\$ 6,653</u>	<u>\$ 237,414</u>

NOTE G - LONG TERM DEBT

2012 Refunding Bonds

On November 27, 2012, the School District issued general obligation bonds of \$4,530,000. Proceeds from this bond issue were used to advance refund a portion of the 2004 refunding bonds. The refunding was undertaken to reduce annual debt service payments.

Optional Redemption: The Bonds or portions of the Bonds in multiples of \$5,000 maturing on or after May 1, 2021, are subject to redemption at the option of the School District in such order as the School District may determine and by lot within any maturity, on any date occurring on or after May 1, 2021, at par plus accrued interest to the date fixed for redemption.

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE G - LONG TERM DEBT (Continued)

The Bonds due May 1, 2021 are term bonds subject to mandatory redemption in part, by lot, on the redemption dates and in the principal amounts set forth below and at the redemption price equal to the principal amount thereof, without premium, together with interest thereon to the redemption date.

Fiscal Year	November 1	May 1		Total
	Interest	Interest	Principal	
2018-2019	29,197	29,198	425,000	483,395
2019-2020	24,947	24,948	415,000	464,895
2020-2021	20,797	20,798	410,000	451,595
2021-2022	16,697	16,698	400,000	433,395
2022-2023	12,697	12,698	390,000	415,395
2023-2024	8,505	8,505	380,000	397,010
2024-2025	4,230	4,230	360,000	368,460
	<u>\$ 117,070</u>	<u>\$ 117,075</u>	<u>\$ 2,780,000</u>	<u>\$ 3,014,145</u>

2016 School Building and Site Bonds

On March 17, 2016, the School District issued general obligation bonds of \$4,490,000. Proceeds from this bond issue were used to remodel, equip, and re-equip school buildings, in part with energy conservation improvements, and purchasing school buses.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 1% to 3% per annum payable semiannually on the first day of November and May in each year; and shall mature on May 1 in each year until 2030.

Optional Redemption: The bonds or portions of the bonds in multiples of \$5,000 maturing on or after May 1, 2026 are subject to redemption at the option of the District in such order as the District may determine and by lot within any maturity, on any date occurring on or after May 1, 2026 at par plus accrued interest to the date fixed for redemption.

The Bonds due May 1, 2030 are term bonds subject to mandatory redemption in part, by lot, on the redemption dates and in the principal amounts set forth below and at the redemption price equal to the principal amount thereof, without premium, together with interest thereon to the redemption date.

Fiscal Year	November 1	May 1		Total
	Interest	Interest	Principal	
2018-2019	58,225	58,225	150,000	266,450
2019-2020	56,725	56,725	175,000	288,450
2020-2021	54,975	54,975	195,000	304,950
2021-2022	53,025	53,025	220,000	326,050
2022-2023	50,825	50,825	245,000	346,650
2023-2024	48,375	48,375	270,000	366,750
2024-2025	45,675	45,675	295,000	386,350
2025-2026	41,250	41,250	530,000	612,500
2026-2027	33,300	33,300	540,000	606,600
2027-2028	25,200	25,200	550,000	600,400
2028-2029	16,950	16,950	560,000	593,900
2029-2030	8,550	8,550	570,000	587,100
	<u>\$ 493,075</u>	<u>\$ 493,075</u>	<u>\$ 4,300,000</u>	<u>\$ 5,286,150</u>

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE G - LONG TERM DEBT (Continued)

Long-term liabilities activity, as reported in and liquidated through the following funds for the fiscal year ended June 30, 2018, was as follows:

	Balance July 01, 2017	Increase	Decrease	Balance June 30, 2018	Current Portion
2012 Refunding	\$ 3,220,000	\$ -	\$ 440,000	\$ 2,780,000	\$ 425,000
2016 School Building & Site Bond	4,440,000	-	140,000	4,300,000	150,000
	<u>7,660,000</u>	-	580,000	7,080,000	<u>\$ 575,000</u>
Other accrued interest	30,841	-	1,700	29,141	
Retirement Incentive	-	13,000	-	13,000	
Accrued Benefits	26,023	1,971	-	27,994	
Total	<u>\$ 7,716,864</u>	<u>\$ 14,971</u>	<u>\$ 581,700</u>	<u>\$ 7,150,135</u>	

As of June 30, 2018, the aggregate maturities of long-term debt for the next ten years and thereafter are as follows:

Fiscal Year	Principal	Interest	Total
2018-2019	\$ 575,000	\$ 174,845	\$ 749,845
2019-2020	590,000	163,345	753,345
2020-2021	605,000	151,545	756,545
2021-2022	620,000	139,445	759,445
2022-2023	635,000	127,045	762,045
2023-2024	650,000	113,760	763,760
2024-2025	655,000	99,810	754,810
2025-2026	530,000	82,500	612,500
2026-2027	540,000	66,600	606,600
2027-2028	550,000	50,400	600,400
2028-2029	560,000	33,900	593,900
2029-2030	570,000	17,100	587,100
	<u>\$ 7,080,000</u>	<u>\$ 1,220,295</u>	<u>\$ 8,300,295</u>

NOTE H - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS

Plan Description

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

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE H - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (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 System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Valuation date	September 30, 2016
Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
Pension	7.00%-7.50%
OPEB	7.5%
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.
Other Assumptions:	
Opt out assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
Coverage election at retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE H - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB 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 for non-university employers or 1.4186 for university employers]
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets

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 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.

The target asset allocation as of September 30, 2017 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
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 and OPEB plan investment net of pension plan and OPEB investment expense, was 13.24% and 11.82% respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

**NOTE H - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION
AND OPEB PLANS (Continued)**

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 provided through non-university employers only). 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). 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 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 plan members. Therefore, the long-term expected rate of return on pension plan OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total OPEB liability.

PENSION PLAN

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.

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 rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Contributions

Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under the 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 September 30, 2017 valuation will be amortized over a 20-year period for fiscal year 2017.

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE H - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)

The District's contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by ORS. The range of rates is as follows:

October 1, 2016 - September 30, 2017	15.27% - 19.03%
October 1, 2017 - June 30, 2018	13.54% - 19.74%

Required contributions to the pension plan from Ewen-Trout Creek Consolidated School District were \$297,320 for the year ended September 30, 2017.

Pension Liabilities

At June 30, 2018, the District reported a liability of \$3,284,890 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2016. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017 and 2016, the District's proportion was .01268% and .01270% respectively..

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

For the year ended June 30, 2018, the District recognized total pension expense of \$380,106. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate and the one-time payment received under 147c(2) of the State Aid Act, which the District then remitted as a contribution to the plan.

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

	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ 28,548	\$ 16,118
Changes of assumptions	359,886	157,039
Changes in proportion and differences between employer contributions and proportionate share of contributions	79,426	13,390
District's contributions subsequent to the measurement date	152,146	-
Total	<u>\$ 620,006</u>	<u>\$ 186,547</u>

\$2,518 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.

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE H - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)

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

Year Ending September 30	Amount
2017	\$ 99,650
2018	\$ 142,785
2019	\$ 46,636
2020	\$ (7,758)

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

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

	1% Lower (Non-Hybrid/Hybrid) (6.5%/6.0%)	Discount Rate (Non-Hybrid/Hybrid) (7.5%/7.0%)	1% Higher (Non-Hybrid/Hybrid) (8.5%/8.0%)
District's proportionate share of the net pension liability	\$ 4,279,120	\$ 3,284,890	\$ 2,447,813

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payable to the Pension Plan

At year end the District is current on all required pension plan payments. Amounts accrued at year end were \$44,375. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

OPEB PLAN

Benefits Provided

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

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

**NOTE H - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION
AND OPEB PLANS (Continued)**

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

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

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

October 1, 2016 - September 30, 2017	5.69% - 5.91%
October 1, 2017 - June 30, 2018	7.42% - 7.67%

Required contributions to the OPEB plan from Ewen-Trout Creek Consolidated School District were \$98,829 for the year ended September 30, 2017.

OPEB Liabilities

At June 30, 2018, the District reported a liability of \$1,124,125 for its proportionate share of the 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 pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017 and 2016, the District's proportion was .01269%.

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE H - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)

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

For the year ended June 30, 2018, the District recognized total OPEB expense of \$75,170. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate and the one-time payment received under 147c(2) of the State Aid Act, which the District then remitted as a contribution to the plan.

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

	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ -	\$ 11,969
Changes of assumptions	-	-
Net difference between policies and actual earnings on OPEB plan investments	-	26,035
Changes in proportion and differences between reporting using contributions and proportionate share of contributions	-	91
District's contributions subsequent to the measurement date	80,135	-
Total	<u>\$ 80,135</u>	<u>\$ 38,095</u>

\$80,135 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 pension liability in the year ended June 30, 2019.

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

Year Ended September 30	Amount
2018	\$ (9,204)
2019	\$ (9,204)
2020	\$ (9,204)
2021	\$ (9,204)
2022	\$ (1,279)

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

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

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$ 1,316,675	\$ 1,124,125	\$ 960,710

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE H - MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION AND OPEB PLANS (Continued)

Sensitivity 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 the net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$ 951,983	\$ 1,124,125	\$ 1,319,581

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.

Payable to the OPEB Plan

At year end the District is current on all required OPEB payments. Amounts accrued at year end were \$9,728. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

NOTE I - 403 (b) RETIREMENT PLAN

The District established a 403(b) plan which is a qualified tax sheltered annuity for the benefit of eligible employees. The plan is self-administered by the District with a plan year ending each December 31. Participants can invest in annuity contracts or custodial accounts which invest in mutual funds. The District is not required to make contributions. Distributions are governed by IRS regulations.

NOTE J - RISK MANAGEMENT

The 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 District has purchased commercial insurance for general liability and employee medical benefit claims and participates in the SEG Self-insurers Workers' Disability Compensation Fund for claims relating to employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE K - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS RECONCILIATION

The amounts reported as current payments on MDE grant reports prepared by the State of Michigan, reconcile with the federal revenue on the Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances on page 17 as follows:

Total current payments per MDE Reports	\$	174,369
Less prior year revenues		
Title I		(70,209)
Title II		(34,157)
Plus current year receivables		
Title I		94,100
Title II		14,918
Title IV		10,000
Other federal revenue		
Food commodities		6,161
Small Rural Achievement Grant (REAP)		6,445
Impact aid		128,048
Ottawa National Forest		202,092
Schedule of Expenditures of Federal Awards	\$	<u>531,767</u>

The District expended less than \$750,000 in Federal awards during the fiscal year ended June 30, 2018 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

NOTE L - SUBSEQUENT EVENTS

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2018

	<u>Budgeted Amounts</u>			Variance Final to Actual
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Local sources	\$ 1,322,889	\$ 1,350,920	\$ 1,351,788	\$ 868
State sources	444,387	651,755	658,542	6,787
Federal sources	377,296	456,055	455,603	(452)
Total revenues	<u>2,144,572</u>	<u>2,458,730</u>	<u>2,465,933</u>	<u>7,203</u>
Expenditures				
Instruction	1,403,716	1,589,275	1,597,152	(7,877)
Pupil	4,197	8,365	8,566	(201)
Instructional staff	32,063	5,919	6,088	(169)
General administration	72,885	81,935	74,618	7,317
School administration	128,932	137,241	137,396	(155)
Business-fiscal services	111,299	108,902	106,705	2,197
Operations & maintenance	265,206	272,800	268,901	3,899
Pupil transportation	223,071	209,991	206,611	3,380
Athletics	28,866	84,806	84,805	1
Technical support	18,154	21,693	21,714	(21)
Total expenditures	<u>2,288,389</u>	<u>2,520,927</u>	<u>2,512,556</u>	<u>8,371</u>
Excess (deficiency) of revenues over expenditures	(143,817)	(62,197)	(46,623)	15,574
Other financing sources (uses)				
Incoming transfers - other schools	5,000	11,962	11,963	1
Proceeds from the sale of capital assets	5,000	3,570	3,570	-
Operating transfers in (out)	(47,720)	(15,000)	(15,000)	-
Total other financing sources (uses)	<u>(37,720)</u>	<u>532</u>	<u>533</u>	<u>1</u>
Net change in fund balances	<u>\$ (181,537)</u>	<u>\$ (61,665)</u>	(46,090)	<u>\$ 15,575</u>
Fund balances - Beginning of year			<u>541,770</u>	
Fund balances - End of year			<u>\$ 495,680</u>	

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
PENSION REQUIREMENTS
Year Ended June 30, 2018**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY**

Michigan Public School Employees Retirement Plan
Last Three Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	<u>9/30/2014</u>	<u>9/30/2015</u>	<u>9/30/2016</u>	<u>9/30/2017</u>
A. District's proportion of net pension liability	0.01184 %	0.01273 %	0.01270 %	0.01268 %
B. District's proportionate share of net pension liability	\$ 2,608,141	\$ 3,111,301	\$ 3,169,275	\$ 3,284,890
C. District's covered payroll	\$ 1,016,731	\$ 1,095,761	\$ 1,078,932	\$ 1,057,395
D. District's proportionate share of net pension liability as a percentage of its covered payroll	38.98 %	35.22 %	34.04 %	32.19 %
E. Plan fiduciary net position as a percentage of total pension liability	66.20 %	63.17 %	63.27 %	64.21 %

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS

Michigan Public School Employees Retirement Plan
Last Three Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>	<u>6/30/2018</u>
A. Statutorily required contributions	\$ 226,980	\$ 199,243	\$ 192,001	\$ 195,427
B. Contributions in relation to statutorily required contributions	227,494	199,243	192,001	195,427
C. Contribution deficiency (excess)	<u>\$ 514</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
D. District's covered payroll	\$ 1,032,660	\$ 1,064,148	\$ 1,024,988	\$ 1,106,484
E. Contributions as a percentage of covered payroll	22.03 %	18.72 %	18.73 %	17.66 %

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
OPEB REQUIREMENTS
Year Ended June 30, 2018**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF NET OPEB LIABILITY**

Michigan Public School Employees Retirement Plan
(Amounts were determined as of 9/30 of each plan year)

	9/30/2017
A. District's proportion of net OPEB liability	0.01269 %
B. District's proportionate share of net OPEB liability	\$ 1,124,125
C. District's covered payroll	\$ 1,057,395
D. District's proportionate share of net OPEB liability as a percentage of its covered payroll	94.06 %
E. Plan fiduciary net position as a percentage of total OPEB liability	36.39 %

SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS

Michigan Public School Employees Retirement Plan
(Amounts were determined as of 6/30 of each fiscal year)

	6/30/2018
A. Statutorily required contributions	\$ 80,135
B. Contributions in relation to statutorily required contributions	80,135
C. Contribution deficiency (excess)	\$ -
D. District's covered payroll	\$ 1,106,484
E. Contributions as a percentage of covered payroll	7.24 %

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - June 30, 2018**

Pension Information

Ten years of data are required in the pension related schedules. The number of years presented as of June 30, 2018 represent the number of years since the accounting standard requiring these schedules came into effect.

NOTE A - CHANGE OF BENEFIT TERMS

There were no changes of benefit terms in 2017.

NOTE B - CHANGE OF ASSUMPTIONS

During the year, MPSERS approved a decrease in the discount rate for the September 30, 2016 annual actuarial valuation of 0.5 percent from 8.00% to 7.50% for the non-hybrid plan. There were no changes of benefit assumptions in 2017.

OPEB Information

Ten years of data are required in the OPEB related schedules. The number of years presented as of June 30, 2018 represent the number of years since the accounting standard requiring these schedules came into effect.

NOTE A - CHANGE OF BENEFIT TERMS

There were no changes of benefit terms in 2017.

NOTE B - CHANGE OF ASSUMPTIONS

There were no changes of benefit terms in 2017.

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Local sources			
Taxes	\$ 1,239,118	\$ 1,239,145	\$ 27
Penalties and interest	5,700	5,703	3
Earnings on investments	2,500	2,410	(90)
Community services	9,565	9,566	1
Athletics	48,379	48,405	26
Contributions	4,925	4,925	-
Miscellaneous	40,733	41,634	901
Total local sources	<u>1,350,920</u>	<u>1,351,788</u>	<u>868</u>
State sources			
Unrestricted grants			
Unrestricted state aid	462,422	470,968	8,546
Total unrestricted grants	<u>462,422</u>	<u>470,968</u>	<u>8,546</u>
Restricted grants			
Other grants	7,594	7,568	(26)
At-risk	87,463	85,730	(1,733)
Special education	94,276	94,276	-
Total restricted grants	<u>189,333</u>	<u>187,574</u>	<u>(1,759)</u>
Total state sources	<u>651,755</u>	<u>658,542</u>	<u>6,787</u>
Federal sources			
Title I	94,520	94,100	(420)
Title II	14,951	14,918	(33)
Title IV	10,000	10,000	-
REAP	6,444	6,445	1
Ottawa National Forest	202,092	202,092	-
Impact aid	128,048	128,048	-
Total federal sources	<u>456,055</u>	<u>455,603</u>	<u>(452)</u>
Total revenues	<u>2,458,730</u>	<u>2,465,933</u>	<u>7,203</u>
Expenditures			
Instruction			
Basic program			
Elementary school	631,191	639,591	(8,400)
High school	464,468	464,679	(211)
Pre-kindergarten	20,021	20,346	(325)
Total basic program	<u>1,115,680</u>	<u>1,124,616</u>	<u>(8,936)</u>
Added needs			
Special education	265,953	265,678	275
Compensatory education	207,642	206,858	784
Total added needs	<u>473,595</u>	<u>472,536</u>	<u>1,059</u>
Total instruction	<u>1,589,275</u>	<u>1,597,152</u>	<u>(7,877)</u>

EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES (Continued)
Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Supporting services			
Pupil			
Guidance	\$ 4,004	\$ 4,004	\$ -
Health	4,361	4,562	(201)
Total pupil	<u>8,365</u>	<u>8,566</u>	<u>(201)</u>
Instructional staff			
Improvement of instruction	5,285	5,455	(170)
Library	634	633	1
Total instructional staff	<u>5,919</u>	<u>6,088</u>	<u>(169)</u>
General administration			
Board of education	42,234	40,224	2,010
Executive administration	39,701	34,394	5,307
Total general administration	<u>81,935</u>	<u>74,618</u>	<u>7,317</u>
School administration	137,241	137,396	(155)
Business-fiscal services	108,902	106,705	2,197
Operations & maintenance	272,800	268,901	3,899
Pupil transportation	209,991	206,611	3,380
Athletics	84,806	84,805	1
Technical support	<u>21,693</u>	<u>21,714</u>	<u>(21)</u>
Total supporting services	<u>931,652</u>	<u>915,404</u>	<u>16,248</u>
Total expenditures	<u>2,520,927</u>	<u>2,512,556</u>	<u>8,371</u>
Excess (deficiency) of revenues over expenditures	<u>(62,197)</u>	<u>(46,623)</u>	<u>15,574</u>
Other financing sources (uses)			
Incoming transfers - other schools	11,962	11,963	1
Proceeds from the sale of capital assets	3,570	3,570	-
Operating transfers in (out)	<u>(15,000)</u>	<u>(15,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>532</u>	<u>533</u>	<u>1</u>
Net change in fund balances	<u>\$ (61,665)</u>	<u>(46,090)</u>	<u>\$ 15,575</u>
Fund balances - Beginning of year		<u>541,770</u>	
Fund balances - End of year		<u>\$ 495,680</u>	

EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
DEBT SERVICE FUND
COMBINING BALANCE SHEET
June 30, 2018

	<u>2012 Debt Refunding</u>	<u>Sidewalk/Bus Debt</u>	<u>2016 Debt Fund</u>	<u>Total</u>
Assets				
Cash and investments	\$ 71,884	\$ -	\$ 74,871	\$ 146,755
Receivables	-	-	385	385
Due from governmental units	629	-	-	629
Other current assets	-	5,494	-	5,494
Total assets	<u>\$ 72,513</u>	<u>\$ 5,494</u>	<u>\$ 75,256</u>	<u>\$ 153,263</u>
 Fund balances				
Restricted	<u>\$ 72,513</u>	<u>\$ 5,494</u>	<u>\$ 75,256</u>	<u>\$ 153,263</u>

EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
DEBT SERVICE FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2018

	<u>2012 Debt Refunding</u>	<u>Sidewalk/Bus Debt</u>	<u>2016 Debt Fund</u>	<u>Total</u>
Revenues				
Taxes	\$ 478,537	\$ -	\$ 263,038	\$ 741,575
Other taxes	-	-	6,045	6,045
Penalties and interest	-	-	15	15
Earnings on investments	863	-	179	1,042
Total revenues	<u>479,400</u>	<u>-</u>	<u>269,277</u>	<u>748,677</u>
Expenditures				
Interest expense	67,195	-	117,850	185,045
Redemption of bond principle	440,000	-	140,000	580,000
Tax collection fees	100	-	-	100
Other expense	28	-	500	528
Total expenditures	<u>507,323</u>	<u>-</u>	<u>258,350</u>	<u>765,673</u>
Excess (deficiency) of revenues over expenditures	<u>(27,923)</u>	<u>-</u>	<u>10,927</u>	<u>(16,996)</u>
Other financing sources (uses)				
Fund balances - Beginning of year	<u>100,436</u>	<u>5,494</u>	<u>64,329</u>	<u>170,259</u>
Fund balances - End of year	<u>\$ 72,513</u>	<u>\$ 5,494</u>	<u>\$ 75,256</u>	<u>\$ 153,263</u>

EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
FOOD SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Local sources			
Adult lunches	\$ 1,895	\$ 2,070	\$ 175
A-La-Carte	2,420	284	(2,136)
Special milk	303	25	(278)
Student lunches	16,644	16,957	313
Earnings on investments	75	90	15
Other food sales	<u>1,098</u>	<u>3,753</u>	<u>2,655</u>
Total local sources	<u>22,435</u>	<u>23,179</u>	<u>744</u>
State sources	<u>7,650</u>	<u>7,771</u>	<u>121</u>
Total state sources	<u>7,650</u>	<u>7,771</u>	<u>121</u>
Federal sources			
School lunch program	70,001	70,003	2
USDA entitlements	<u>-</u>	<u>6,161</u>	<u>6,161</u>
Total federal sources	<u>70,001</u>	<u>76,164</u>	<u>6,163</u>
Total revenues	<u>100,086</u>	<u>107,114</u>	<u>7,028</u>
Expenditures			
Salaries	20,865	20,864	1
Employee benefits	23,086	22,604	482
Supplies, materials, and other	46,339	51,974	(5,635)
Purchased services	<u>16,778</u>	<u>16,779</u>	<u>(1)</u>
Total expenditures	<u>107,068</u>	<u>112,221</u>	<u>(5,153)</u>
Excess (deficiency) of revenues over expenditures	(6,982)	(5,107)	1,875
Other financing sources (uses)			
Operating transfers in (out)	<u>-</u>	<u>15,000</u>	<u>15,000</u>
Total other financing sources (uses)	<u>-</u>	<u>15,000</u>	<u>15,000</u>
Net change in fund balances	<u>\$ (6,982)</u>	9,893	<u>\$ 16,875</u>
Fund balances - Beginning of year		<u>(20,181)</u>	
Fund balances - End of year		<u>\$ (10,288)</u>	

COMMUNICATION SECTION

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, PC

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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
Ewen-Trout Creek Consolidated School District
Ewen, 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 Ewen-Trout Creek Consolidated School District as of and for the year then ended June 30, 2018 and the related notes to the 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 District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will be 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 over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

*Rukkila, Negro & Associates,
Certified Public Accountants, PC*

October 29, 2018

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, PC

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Board of Education
Ewen-Trout Creek Consolidated School District
Ewen, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ewen-Trout Creek Consolidated School District for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 3, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Ewen-Trout Creek Consolidated School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2018. We noted no transactions entered into by Ewen-Trout Creek Consolidated School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the useful lives of fixed assets, used to calculate depreciation, is based on the estimated useful lives of certain classes of assets. We evaluated the key factors and assumptions used to develop the useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 29, 2018.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the budgetary comparison schedules which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on RSI.

We were engaged to report on the supplemental financial information, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Ewen-Trout Creek Consolidated School District board and management and is not intended to be and should not be used for anyone other than these specified parties.

*Rukkila, Negro & Associates,
Certified Public Accountants, PC*

October 29, 2018

**EWEN-TROUT CREEK CONSOLIDATED SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS
JUNE 30, 2018**

During our audit we became aware of an opportunity for strengthening internal controls and operating efficiencies. The following item summarizes our comment and suggestion regarding this matter.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Budget Review

The Uniform Budgeting Act requires entities to approve an operating budget prior to the beginning of the year and that all amendments to budget made throughout the year are approved. Districts shall not incur expenditures in excess of the amount appropriated. The approved budgets of these funds were adopted on an activity and/or program level. During the year ended June 30, 2018, the District incurred expenditures which were in excess of the amounts appropriated as shown within the required supplemental financial information.

The District should control expenditures in each governmental fund so as not to exceed the amounts appropriated. When this is not possible, the budget should be amended accordingly. We recommend that the District review the provisions of Public Act 2 of 1968, as amended, to determine proper compliance procedures.