

Pittsford Area Schools

Financial Report
With Supplemental Information

Year Ended June 30, 2018

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Independent Auditors' Report

Board of Education
Pittsford Area Schools
Pittsford, 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 Pittsford Area Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 13 to the financial statements, during the year ended June 30, 2018, Pittsford Area Schools implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are 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 certain pension and OPEB information as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required 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 Pittsford Area School's basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of bonded indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018, on our consideration of Pittsford Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Pittsford Area Schools' internal control over financial reporting and compliance.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

October 30, 2018

Management's Discussion and Analysis Year Ended June 30, 2018

Our discussion and analysis of Pittsford Area Schools' financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2018. The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms, the past and current position of the School District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the revenues and expenditures by program for all the District's funds.

USING THIS ANNUAL REPORT

The School District's annual report consists of a series of financial statements that show information for the School District as a whole, its funds, and its fiduciary responsibilities. The Statement of Net Position and the Statement of Activities (pages 1 - 2), provide information about the activities of the School District as a whole and present a longer-term view of the School District's finances. Our fund financial statements start on page 3. Our governmental activities statements tell how we financed our services in the short-term, as well as what remains for future spending. Fund financial statements report the School District's operations in more detail than governmental-wide financial statements by providing information about the School District's most significant funds. The remaining statement provides information about activities for which the School District acts solely as an agent for the benefit of student groups.

Reporting the School District as a Whole

One of the most important questions asked about the School District is, "Is the School District as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. We prepared these statements to include all assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenue and expenses, regardless of when cash is received or paid.

These two statements report the School District's *net position* – the difference between assets and liabilities – as one way to measure the School District's financial health or *financial position*. Over time, *increases* or *decreases* in the School District's net position – are one indicator of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses indicates the School District's *operating results*. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school to assess the *overall health* of the School District.

Reporting the School District's Most Significant Funds

The School District's Fund Financial Statements, which begin on page 3, provide detailed information about the School District's most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes other funds to help it control and manage money for particular purposes (like the Food Service Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like the Sinking Fund and the Construction Fund).

Management’s Discussion and Analysis
Year Ended June 30, 2018

Governmental fund reporting focuses on showing how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. They are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the School District’s operations and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District’s programs. We describe the relationship (or differences) between *governmental activities* (reported in the Statement of Net Position and the Statement of Activities) and *governmental funds* in reconciliations on pages 4 and 6.

The School District as Trustee

The School District is the trustee, or agent, for its student activity funds. All of the School District’s agent activities are reported in a separate Statement of Assets and Liabilities – Agency Funds on page 7. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

The School District’s net position at June 30, 2018 was \$(7,883,458). Of this amount, \$(9,712,796) was unrestricted and a deficit amount due to the pension and OPEB liabilities. Restricted net position is reported separately to show legal constraints that limit the School District’s ability to use those assets for day-to-day operations. Below we focus our attention on the net position (TABLE 1) and changes in net position (TABLE 2) of the School District’s governmental activities.

TABLE 1 - Net Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Current assets	\$ 1,686,746	\$ 2,033,779
Non-current assets	2,303,487	1,889,934
Total assets	<u>3,990,233</u>	<u>3,923,713</u>
 Deferred Outflows of Resources	 <u>1,831,741</u>	 <u>1,266,928</u>
 Current liabilities	 1,041,796	 1,013,146
Non-current liabilities	11,474,263	11,720,354
Total liabilities	<u>12,516,059</u>	<u>12,733,500</u>
 Deferred Inflows of Resources	 <u>1,189,373</u>	 <u>587,242</u>
 Net Position:		
Invested in capital assets - net of related debt	1,633,487	1,114,934
Restricted for debt service	52,178	10,992
Restricted for capital projects	143,673	529,464
Unrestricted	(9,712,796)	(9,785,491)
Total net position	<u>\$ (7,883,458)</u>	<u>\$ (8,130,101)</u>

Management's Discussion and Analysis
Year Ended June 30, 2018

The School District as a Whole (Concluded)

TABLE 2 - Changes in Net Position

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Program Revenue:		
Charges for services	\$ 85,060	\$ 64,399
Operating grants and contributions	1,120,016	1,051,278
General Revenue:		
Property taxes	647,980	669,521
State School Aid	3,411,384	3,689,096
Other	81,950	35,502
Total revenues	5,346,390	5,509,796
Expenses:		
Instruction	3,144,775	3,196,051
Support services	1,454,664	1,679,585
Food service activities	265,232	243,279
Depreciation - unallocated	141,894	110,205
Interest on long-term debt	13,273	13,947
Capital outlay	79,909	-
Total expenses	5,099,747	5,243,067
Increase (decrease) in net position	246,643	266,729
Net position beginning of year	(8,130,101)	(5,620,608)
Entry to record OPEB liability and related at June 30, 2017	-	(2,776,222)
Ending net position	\$ (7,883,458)	\$ (8,130,101)

As shown above, the cost of all our governmental activities this year was \$5,099,747. The amount that our taxpayers ultimately financed for those activities through school property taxes was \$647,980. The remainder of the cost was paid by charges for services, State Aid and use of prior years' accumulation of funds.

There were several reasons for the change in the financial condition from 2017-2018:

- Change in student enrollment
- Staffing changes and increase in retirement expense
- Increase in employee health care costs
- Change in pension and OPEB liabilities and related items

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The School District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. During the fiscal year ended June 30, 2018, the School District amended the General Fund Budget two times.

Pittsford Area Schools

Management's Discussion and Analysis Year Ended June 30, 2018

General Fund

The actual revenue and transfers-in of the General Fund was \$4,836,556, above the original budget estimates of \$4,792,582 and the final amended budget of \$4,806,716.

The actual expenditures of the General Fund were \$4,833,167, above the original budget estimate of \$4,858,724 and below the final amended budget of \$4,917,438.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of fiscal year 2018, the School District had \$8,902,858 invested in land and buildings, furniture and equipment, and vehicles. We have estimated that these assets have depreciated by \$6,599,371 through June 30, 2018; therefore, we currently have net book value of \$2,303,487.

Current year additions included the roofing project and some land improvements.

	<u>2018</u>	<u>2017</u>
Buildings	\$ 6,650,282	\$ 6,364,835
Equipment and furnishings	2,118,276	1,947,801
Vehicles	16,160	16,160
Land improvements	118,140	-
Total capital assets	<u>8,902,858</u>	<u>8,328,796</u>
Less accumulated depreciation	<u>6,599,371</u>	<u>6,438,862</u>
Net capital assets	<u>\$ 2,303,487</u>	<u>\$ 1,889,934</u>

At June 30, 2018, the School District had \$670,000 in general obligation debt.

	<u>2018</u>	<u>2017</u>
Bonds outstanding	\$ 670,000	\$ 775,000
	<u>\$ 670,000</u>	<u>\$ 775,000</u>

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, was implemented during the fiscal year. The purpose of this standard is to improve accounting and financial reporting for pensions. It established standards for measuring and recognizing pension liabilities, pension expenses, and the related deferred inflows and deferred outflows of resources. Implementation of this standard requires recording of the full unfunded portion of the District's pension plan administered through the Michigan Public School Employees' Retirement System (MPERS). The unfunded pension liability has been established through actuarial valuations and will be amortized over a 22 year period beginning with the plan's fiscal year-end of September 30, 2015. With the recording of this pension liability, the liabilities of the District exceeded its assets.

For the current year, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions*. The changes required under this standard are significant at the government-wide level. The Standard requires reporting related to other postemployment benefits (OPEB) similar to reporting in regards to pension plans. These requirements include recording a proportionate share of the net OPEB liability, recording a proportionate share of OPEB expense and certain required disclosures and required supplementary information. The Standard has no affect on the statements at the fund level.

MDA

Management's Discussion and Analysis Year Ended June 30, 2018

FACTORS BEARING ON THE DISTRICT'S FUTURE

The overall District enrollment is projected to continue a declining trend as more families leave the area due to prolonged unemployment, new losses of work and lack of newly created jobs.

The District continues to experience increases in retirement, insurance, and energy cost while student enrollment declines. The District has also incurred additional costs for its increase in population of special needs children.

A one year contract was negotiated with the Pittsford Education Association and expires August 31, 2019.

The District's five year, one mil sinking fund levy was voted back in. Sinking fund monies have been utilized to make improvements to the school in the past and will be able to continue through this levy. This will help going forward to avoid the use of general fund money for these repairs.

The District, working in collaboration with neighboring districts, has attempted to reduce costs whenever possible by sharing the services and cooperative purchases.

CONTACTING THE SCHOOL DISTRICT FINANCIAL MANAGEMENT

This report is designed to give an overview of the financial conditions of the Pittsford Area Schools. If you have any questions about this report or need further information, you may contact the Superintendent's Office located at 9304 Hamilton Street, Pittsford, MI 49271.

Pittsford Area Schools
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets:	
Cash and investments	\$ 865,986
Receivables	2,066
Due from other governmental units	816,648
Inventories	2,046
Capital assets:	
Cost of capital assets	8,902,858
Less: accumulated depreciation	(6,599,371)
Net capital assets	2,303,487
Total assets	3,990,233
 Deferred Outflows of Resources:	
Pension related	1,662,861
OPEB related	168,880
Total deferred outflows of resources	1,831,741
 Liabilities:	
Accounts payable and accrued expenses	631,373
State aid anticipation notes	405,253
Unearned revenue	3,118
Long-term liabilities:	
Due within one year:	
Bonds, capital leases and contracts	110,000
Accrued interest	2,052
Due in more than one year:	
Bonds, capital leases and contracts	560,000
Compensated absences	50,655
Net pension liability	8,013,277
Net OPEB liability	2,740,331
Total liabilities	12,516,059
 Deferred Inflows of Resources:	
Pension related	1,096,730
OPEB related	92,643
Total deferred inflows of resources	1,189,373
 Net Position:	
Invested in capital assets, net of related debt	1,633,487
Restricted for:	
Debt service	52,178
Capital projects	143,673
Unrestricted	(9,712,796)
Total net position	\$ (7,883,458)

Pittsford Area Schools
Statement of Activities
Year Ended June 30, 2018

<u>Functions/Programs</u>	<u>Program Revenue</u>			<u>Governmental</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
		<u>Services</u>	<u>Grants and</u>	<u>Net (Expenses)</u>
			<u>Contributions</u>	<u>Revenues and</u>
				<u>Change in</u>
				<u>Net Position</u>
Primary Government				
Governmental activities:				
Instruction	\$ 3,144,775	\$ -	\$ 918,073	\$ (2,226,702)
Support services	1,454,664	26,900	12,693	(1,415,071)
Food service activities	265,232	58,160	189,250	(17,822)
Interest on long-term debt	13,273	-	-	(13,273)
Capital outlay	79,909	-	-	(79,909)
Depreciation (unallocated)	141,894	-	-	(141,894)
Total governmental activities	<u>\$ 5,099,747</u>	<u>\$ 85,060</u>	<u>\$ 1,120,016</u>	<u>(3,894,671)</u>
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				394,558
Property taxes, levied for debt service				253,422
State aid not restricted to specific purposes				3,411,384
Unrestricted investment earnings				3,031
Other				78,919
Total general revenues				<u>4,141,314</u>
Change in Net Position				246,643
Net Position - Beginning of Year				<u>(8,130,101)</u>
Net Position - End of Year				<u>\$ (7,883,458)</u>

Pittsford Area Schools
 Balance Sheet
 Governmental Funds
 June 30, 2018

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash and investments	\$ 676,210	\$ 189,776	\$ 865,986
Due from other funds	-	71,455	71,455
Receivables from other governments	816,648	1,891	818,539
Other receivables	175	-	175
Inventories	-	2,046	2,046
Total assets	<u>\$ 1,493,033</u>	<u>\$ 265,168</u>	<u>\$ 1,758,201</u>
 <u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 21,077	\$ 23	\$ 21,100
Due to other funds	71,455	-	71,455
State aid anticipation notes	405,253	-	405,253
Unearned revenue	-	3,118	3,118
Salaries payable and related	587,386	18,062	605,448
Accrued expenditures	4,825	-	4,825
Total liabilities	<u>1,089,996</u>	<u>21,203</u>	<u>1,111,199</u>
 Fund Balances:			
Nonspendable:			
Inventories	-	2,046	2,046
Restricted:			
Food services	-	44,016	44,016
Debt service	-	54,230	54,230
Capital projects	-	143,673	143,673
Committed	7,415	-	7,415
Unassigned	395,622	-	395,622
Total fund balances	<u>403,037</u>	<u>243,965</u>	<u>647,002</u>
Total liabilities and fund balances	<u>\$ 1,493,033</u>	<u>\$ 265,168</u>	<u>\$ 1,758,201</u>

Pittsford Area Schools

Reconciliation of Fund Balances on the Balance Sheet of Governmental Funds to
Net Position of Governmental Activities on the Statement of Net Position
June 30, 2018

Total Fund Balances - Governmental Funds		\$	647,002
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.			
The cost of the capital assets is	\$	8,902,858	
Accumulated depreciation is		<u>(6,599,371)</u>	2,303,487
Long-term liabilities (bonds payable, compensated absences, accrued interest) are not due and payable in the current period and not reported in the funds.			
Bonds payable		(670,000)	
Accrued interest		(2,052)	
Compensated absences		<u>(50,655)</u>	(722,707)
The pension liability and related deferred inflows and outflows are not due and payable in the current period and therefore, are not reported in the funds.			
Net pension liability		(8,013,277)	
Net OPEB liability		(2,740,331)	
Deferred outflows related to net pension liability		1,662,861	
Deferred outflows related to net OPEB liability		168,880	
Deferred inflows related to net pension liability		(1,096,730)	
Deferred inflows related to net OPEB liability		<u>(92,643)</u>	(10,111,240)
Total Net Position - Governmental Activities		\$	<u>(7,883,458)</u>

Pittsford Area Schools
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2018

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Local sources	\$ 502,665	\$ 312,325	\$ 814,990
State sources	4,190,059	11,908	4,201,967
Federal sources	133,832	177,342	311,174
Total revenues	<u>4,826,556</u>	<u>501,575</u>	<u>5,328,131</u>
Expenditures:			
Instruction	3,202,183	-	3,202,183
Support services	1,630,984	-	1,630,984
Food service activities	-	266,634	266,634
Debt service	-	118,465	118,465
Capital outlay	-	483,496	483,496
Total expenditures	<u>4,833,167</u>	<u>868,595</u>	<u>5,701,762</u>
Revenues Over (Under) Expenditures	<u>(6,611)</u>	<u>(367,020)</u>	<u>(373,631)</u>
Other Financing Sources (Uses):			
Transfers in	10,000	-	10,000
Transfers out	-	(10,000)	(10,000)
Total other financing sources (uses)	<u>10,000</u>	<u>(10,000)</u>	<u>-</u>
Net Changes in Fund Balances	3,389	(377,020)	(373,631)
Fund Balances - Beginning of Year	<u>399,648</u>	<u>620,985</u>	<u>1,020,633</u>
Fund Balances - End of Year	<u>\$ 403,037</u>	<u>\$ 243,965</u>	<u>\$ 647,002</u>

Pittsford Area Schools

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds \$ (373,631)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

The amount by which net capital expenditures of \$574,062 were exceeded by depreciation of \$160,509 in the current period. 413,553

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded proceeds.

Principal repayments 105,000

Accrued interest is recorded in the Statement of Activities when incurred; it is not reported in the governmental funds until paid. 192

Compensated absences are reported as expenditures when financial resources are used in the governmental funds. 10,358

Governmental funds report the required pension and OPEB contributions for the fiscal year June 30, 2018 as expenditures. The Statement of Activities reports the fully accrued pension and OPEB expenses based upon a September year-end to coincide with the State of Michigan's fiscal year.

Changes in pension-related liabilities and deferrals (20,957)
Changes in OPEB-related liabilities and deferrals 112,128

Change in Net Position of Governmental Activities: \$ 246,643

Pittsford Area Schools
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	<u>Agency Fund</u>
Assets:	
Cash and cash equivalents	\$ 54,903
Liabilities:	
Due to student groups	\$ 54,903

Pittsford Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of Pittsford Area Schools (the “School District” or “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District’s reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the District does not contain any component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School 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. Taxes, intergovernmental payments, and other unrestricted items are not included as program revenues but instead as general revenue.

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

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

It is the District’s policy to allocate resource outlays first to restricted net position with the remainder allocated to unrestricted net position.

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

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

District-Wide and Fund Financial Statements (Continued)

Fund-Based Statements – 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, severance pay, claims, and judgments, are recorded only when payment is due.

Property taxes, unrestricted State Aid, intergovernmental grants, and interest 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. Expenditure reimbursing grants are recognized when the qualifying expenditures have been incurred, eligibility requirements have been met, and receipt of monies is expected within the current availability period (60 days post year-end). All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following governmental funds:

General Fund – The General Fund is the School District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Capital Project Funds – Capital Project Funds are used to record bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The District maintains the Capital Projects Fund and the Sinking Fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes (not including expendable trusts or major capital projects). The Special Revenue Fund maintained by the District is the Food Service Fund.

Debt Funds – Debt Funds are used to record tax, interest, and other revenue for payment of principal and other expenditures thereof on a particular bond issue. The District maintains one debt fund, the 2016 School Improvement Debt Fund.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the District in a trustee capacity (trust funds) or as an agent (agency funds). Fiduciary Fund net position and results of operations are not included in the district-wide statements.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District presently maintains one agency fund, the Student Activities Fund, to record the transactions of student and parent groups for school-related purposes. The funds are segregated and held for the students and parents.

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue, Assets, Liabilities, and Net Position or Equity

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. For the year ended June 30, 2018, the foundation allowance was based on pupil membership counts taken in February 2017 and September 2017.

The State portion of the foundation is provided primarily by a State education property tax millage of six mills on Principal Residence Exemption (PRE) property and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by non-PRE (non-homestead) property taxes which may be levied at a rate of up to 18 mills plus 6 mills on Commercial Personal Property. The State revenue is recognized during the foundation period and is funded through payments from October 2017 to August 2018. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received which are not expended by the close of the fiscal year are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

Property Taxes - Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the current year, the District levied the following amounts per \$1,000 of assessed valuation:

General Fund – non-primary residence	17.5777
General Fund – commercial personal property	5.5777
2016 Debt Fund	1.6000
Building and Site Sinking Fund	0.9917

Tax abatements provided to property tax payers, if any, were not significant, and thus, no disclosure was deemed required in accordance with GASB Statement No. 77, *Tax Abatement Disclosures*.

Cash and Investments – Cash and cash equivalents include cash on hand, demand deposits, and CDs.

The District reports its investments in accordance with GASB professional standards. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; and in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue, Assets, Liabilities, and Net Position or Equity (Continued)

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.” Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

Inventories and Prepaid Items – Inventories are valued at cost on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

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

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

Buildings and improvements	15-50 years
Buses and other vehicles	5-10 years
Furniture and equipment	5-10 years

Compensated Absences - The District reports a liability for compensated absences, which consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources – In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District currently reports deferred outflows of resources related to the net pension liability and the net OPEB liability. The District also reports deferred outflows of resources for pension and OPEB contributions made subsequent to the plan measurement date which will be recognized in the following year.

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue, Assets, Liabilities, and Net Position or Equity (Continued)

Deferred Outflows/Inflows of Resources (Continued) – In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District currently reports deferred inflows of resources related to its net pension liability and net OPEB liability. These future resources will be amortized and recognized over a time period established by the actuary and relate to differences between actuarial estimates and actual results.

Defined Benefit Pension Plan – 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 Employee’s 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. See Note 10 for detailed information.

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 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. Related investments are reported at fair value. See Note 10 for detailed information.

Fund Balance – The District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this guidance, fund balances of governmental funds are categorized according to five defined categories of fund balance. These categories consist of *nonspendable* amounts which are legally or contractually required to be maintained intact; *restricted* amounts that are constrained for specific purposes set by external parties or law; *committed* amounts that are constraints set by the highest decision making authority (the School Board) through adoption of a resolution and may only be removed by the School Board through a rescindment resolution; *assigned* amounts that have an intended purpose but require no formal specific action; and *unassigned* amounts which are the residual of the other categories and have no specific purpose.

It is the District’s policy to generally use fund balance in order according to the hierarchy of fund balance categories, from restricted down to unassigned.

Use of Estimates - The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end.

Pittsford Area Schools
Notes to Financial Statements

Note 2 – Stewardship, Compliance, and Accountability (Continued)

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 on July 1. The operating budget includes proposed expenditures and the 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. Public hearings are conducted 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). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, for the General Fund are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to fiscal year-end.

Note 3 – Cash and Investments

At year-end, the District's cash and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 865,986	\$ 54,903	\$ 920,889

Cash and cash equivalents are made up of checking and savings accounts and certificates of deposit.

Investment and Deposit Risk – The District's cash and investments are subject to several types of risk, as noted below.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District requires that financial institutions be evaluated and only those with an acceptable risk level are used for the District's deposits for custodial credit risk. At year-end, the District's deposit balance of \$975,000 included \$725,000 that was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments – Custodial credit risk of investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have an investment policy for custodial credit risk.

Pittsford Area Schools
Notes to Financial Statements

Note 3 – Deposits and Investments (Continued)

Interest Rate Risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The District’s investment policy does not restrict investment maturities beyond State law.

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers’ acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. See Note 1 for a full description of allowed investments. The District’s investment policy does not further limit its investment choices.

Concentration of Credit Risk – The District’s investment policy does not limit investments with individual issuers.

Foreign Currency Risk – The District does not invest in foreign currency and does not maintain a policy regarding foreign currency risk.

Note 4 – Receivables

Receivables at year end totaled \$818,714 and consist mainly of amounts due from the Michigan Department of Education for State aid and federal grants.

Note 5 – Capital Assets

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

	Beginning Balance	Additions	Disposals	Year-End Balance
Capital assets being depreciated:				
Building and improvements	\$ 6,364,835	\$ 285,447	\$ -	\$ 6,650,282
Buses and other vehicles	16,160	-	-	16,160
Furniture and equipment	1,947,801	170,475	-	2,118,276
Land improvements	-	118,140	-	118,140
Subtotal	<u>8,328,796</u>	<u>574,062</u>	<u>-</u>	<u>8,902,858</u>
Accumulated depreciation:				
Buildings and improvements	4,502,010	129,236	-	4,631,246
Buses and other vehicles	16,160	-	-	16,160
Furniture and equipment	1,920,692	23,397	-	1,944,089
Land improvements	-	7,876	-	7,876
Subtotal	<u>6,438,862</u>	<u>160,509</u>	<u>-</u>	<u>6,599,371</u>
Net capital assets being depreciated	<u>\$ 1,889,934</u>	<u>\$ 413,553</u>	<u>\$ -</u>	<u>\$ 2,303,487</u>

Pittsford Area Schools
Notes to Financial Statements

Note 5 – Capital Assets (Continued)

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

Governmental activities:

Instruction	\$ 5,994
Support services	2,254
Food services	653
Athletics	9,714
Unallocated	141,894
	<u>\$ 160,509</u>

Note 6 – Interfund Receivables, Payables and Transfers

The District reports interfund balances between some of its funds. The sum of all balances presented in the table below agrees with the sum of interfund balances presented in the statements of net position/balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The composition of interfund balances is as follows:

	Due From:
	General
	Fund
Due To:	
Food Service Fund	\$ 59,753
Sinking Fund	3,762
Capital Projects	7,940
	<u>\$ 71,455</u>

During the year, the food service fund transferred \$10,000 to the general fund for payment of indirect costs.

Note 7 – State Aid Anticipation Notes Payable

At June 30, 2018, the School District had State Aid anticipation notes outstanding that totaled \$405,253 with maturities of July and August, 2018 with interest rates of 1.27% and 1.49%. The notes are secured by the full faith and credit of the District as well as pledged State Aid.

Balance			Balance
June 30, 2017	Additions	Payments	June 30, 2018
\$ 404,236	\$ 700,000	\$ (698,983)	\$ 405,253
<u>404,236</u>	<u>700,000</u>	<u>(698,983)</u>	<u>405,253</u>

The District issued two new notes totaling \$700,000 in August, 2018 with interest rates of 1.75% and 2.50% maturing August, 2019.

Pittsford Area Schools
Notes to Financial Statements

Note 8 – Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Activity is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Bonds	\$ 775,000	\$ -	\$ 105,000	\$ 670,000	\$ 110,000
Compensated absences	61,013	-	10,358	50,655	-
Total governmental activities	<u>\$ 836,013</u>	<u>\$ -</u>	<u>\$ 115,358</u>	<u>\$ 720,655</u>	<u>\$ 110,000</u>

Annual debt service requirements on the above governmental bond and note obligations are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 110,000	\$ 12,310	\$ 122,310
2020	110,000	10,825	120,825
2021	110,000	9,065	119,065
2022	110,000	7,030	117,030
2023	115,000	4,830	119,830
2024	115,000	2,473	117,473
Total	<u>\$ 670,000</u>	<u>\$ 46,533</u>	<u>\$ 716,533</u>

Long-term debt consists of:

\$910,000 – 2016 school improvement bonds due in annual installments of \$110,000 - \$115,000 through May, 2024; interest at 1.10% - 2.15%	<u>\$ 670,000</u>
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Note 9 – Risk Management

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

The School District has purchased commercial insurance for other risks of loss, including property and casualty, errors and omissions, fleet, and employee health and accident insurance. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions

Organization

Pension/OPEB Plan Description – The School District participates in the Michigan Public School Employees' Retirement System ("MPERS" or "the System"), a State-wide, cost-sharing, multiple-employer defined benefit public employee retirement plan governed by the State of Michigan. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees, and covers substantially all employees of the School District. There are currently approximately 700 participating employers in the System which meets the definition of a qualified pension trust fund under Section 401(a) of the Internal Revenue Code. In addition, the System maintains a health plan ("OPEB") which provides postemployment healthcare benefits to all eligible retirees as an elective option including health, prescription drug, dental, and vision coverage.

The System was originally created under Public Act 136 of 1945, recodified, and currently operates under the provisions of Public Act 300 of 1980, as amended. Section 25 of this Act establishes a governing board and its 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 is administered by the Office of Retirement Services 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 included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report and are available on the ORS website at www.michigan.gov/orsschools. Information provided in this report includes financial data, actuarial assumptions data, and detailed information about the pension plan and OPEB plan fiduciary net positions.

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

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

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

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Organization (Continued)

OPEB Benefits Provided (Continued) – Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended. Public Act 300 of 2012 granted all active members of the MPSERS, who earned service credit in the twelve months ending September 3, 2012 or were on an approved professional service 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.

Pension/OPEB Plan Contributions – Public Act 300 of 1980, as amended, requires contributions from both the participating employers and the active plan members. The School District, as a participating employer, is required to contribute amounts necessary to finance the coverage of pension and OPEB benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Under these provisions, each school district’s contribution is expected to finance the costs of benefits earned by employees (plan members) during the year, with an additional amount paid in to finance a portion of the unfunded accrued liability.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2017 fiscal year.

Pension Plan Contributions – The System is set up with several different benefit options which are available to plan members (employees) based on date of hire. The table below summarizes pension contribution rates in effect for fiscal year 2018:

<u>Benefit Type</u>	<u>Member Rates</u>	<u>Employer Rates</u>
Basic	0.0% - 4.0%	17.89% - 19.03%
Member Investment Plan (MIP)	3.0% - 7.0%	17.89% - 19.03%
Pension Plus	3.0% - 6.4%	16.61% - 18.40%
Pension Plus 2	6.2%	19.74%
Defined Contribution	0.0%	13.54% - 15.27%

The District’s required and actual contributions to the plan for the year ended September 30, 2017 were \$725,292. The District’s required and actual pension contributions include an allocation of \$244,693 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial liability (JAAL) stabilization rate for the year ended September 30, 2017.

OPEB Contributions – OPEB contribution rates in effect for the fiscal year 2017 were 3% for members under the Premium Subsidy option with a corresponding 5.91% contribution from employers and 0% for members under the Personal Healthcare Fund with a corresponding 5.69% employer contribution.

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Organization (Continued)

OPEB Contributions (Continued) – Required contributions to the OPEB plan from the District were \$240,920 for the year ended September 30, 2017. The District's required and actual OPEB contributions include an allocation of \$91,055 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial liability (UAAL) stabilization rate for the year ended September 30, 2017.

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

Proportionate Share of School District's Net Pension Liability - At June 30, 2018, the District reported a liability of \$8,013,277 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 proportionate share of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the System during the measurement period by the percent of statutorily required pension contributions from all applicable employers during the measurement period. At September 30, 2017, the District's proportionate share was .03092228 percent, a decrease of .00110945 percent from its proportion measured as of September 30, 2016.

Pension Expense - For the year ended June 30, 2018, the School District recognized pension expense of \$693,701, exclusive of payments to fund the MPSERS UAAL stabilization rate.

Proportionate Share of School District's Net OPEB Liability - At June 30, 2018, the District reported a liability of \$2,740,331 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 30, 2016. The District's proportionate share of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the System during the measurement period by the percent of statutorily required OPEB contributions from all applicable employers during the measurement period. At September 30, 2017, the District's proportionate share was .003094506 percent.

OPEB Expense - For the year ended June 30, 2018, the School District recognized OPEB expense of \$183,403 exclusive of payments to fund the MPSERS UAAL stabilization rate.

Pittsford Area Schools
Notes to Financial Statements

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Pension/OPEB Liabilities, Pension/OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions/OPEB (Continued)

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

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>Pension</u>	<u>OPEB</u>	<u>Pension</u>	<u>OPEB</u>
Difference between expected and actual experience	\$ 69,641	\$ -	\$ 39,319	\$ 29,176
Changes of assumptions	877,918	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	-	383,087	63,467
Changes in proportion and differences between the School District's contributions and a proportionate share of contributions	9,635	485	361,234	-
School District contributions subsequent to the measurement date	<u>705,667</u>	<u>168,395</u>	<u>313,090</u>	<u>-</u>
Total	<u>\$ 1,662,861</u>	<u>\$ 168,880</u>	<u>\$ 1,096,730</u>	<u>\$ 92,643</u>

\$705,667 reported as deferred outflows of resources related to pensions resulting from District 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.

\$168,395 reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

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

<u>Year Ended June 30</u>	<u>Pension</u>	<u>OPEB</u>
2019	\$ 9,097	\$ (22,278)
2020	160,127	(22,278)
2021	51,580	(22,278)
2022	(47,250)	(22,278)
2023	-	(3,046)

Payables to the Pension/OPEB Plan - The District reported an accrued pension/OPEB plan payable at June 30, 2018 of \$73,607. This amount represents employee withholdings and the employer amount payable for wages earned at June 30, 2018 but not yet paid.

Actuarial Assumptions

Actuarial Valuations and 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.

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

Actuarial Valuations and Assumptions (Continued) – 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.

A summary of actuarial assumptions 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:	
MIP and Basic plans (non-hybrid) as well as OPEB	7.5%
Pension Plus Plan (hybrid)	7.0%
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
Cost of living pension adjustments	3.0% annual non-compounded for MIP members
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Additional assumption information includes the following:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension/OPEB valuations beginning with the September 30, 2014 valuation. The total pension/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 – 4.5188 for pension plan employers and 5.4744 for OPEB plan 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.

Additional assumptions related to OPEB only include:

- 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 one or more dependents.

Long-Term Expected Rate of Return on Plan Assets – The long-term expected rate of return on pension/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/OPEB 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.

Pittsford Area Schools
Notes to Financial Statements

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the pension/OPEB plan's target asset allocation as of September 30, 2017, are summarized in the following table:

<u>Asset Class</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 pools	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	<u>2.0%</u>	(0.9)%
Total	<u>100.0%</u>	

*Long-term rates of return are net of administrative expenses and 2.3% inflation.

Rate of Return – For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension/OPEB plan investments, net of pension/OPEB plan 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.

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the School District's proportionate share of the net pension liability calculated using a discount rate of 7.5% (7.0% for the Pension Plus Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher:

<u>Current Single Discount Rate</u>		
<u>1% Decrease (Non-Hybrid/Hybrid)* 6.5%/6.0%</u>	<u>Assumption (Non-Hybrid/Hybrid)* 7.5%/7.0%</u>	<u>1% Increase (Non-Hybrid/Hybrid)* 8.5%/8.0%</u>
<u>\$10,438,635</u>	<u>\$8,013,277</u>	<u>\$5,971,281</u>

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

Pittsford Area Schools
Notes to Financial Statements

Note 10 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher:

1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
<u>\$3,209,719</u>	<u>\$2,740,331</u>	<u>\$2,341,967</u>

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate - The following presents the School District's proportionate share of the net OPEB liability calculated using the assumed trend rates, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is one percentage point lower or one percentage point higher:

1% Decrease 6.5%	Current Healthcare Cost Trend Rate 7.5%	1% Increase 8.5%
<u>\$2,320,692</u>	<u>\$2,740,331</u>	<u>\$3,216,802</u>

Note 11 – Federal and State Grants

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Note 12 - Sinking Fund

The Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Note 13 – New Accounting Standard

For the year ended June 30, 2018, the District has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which was promulgated with the purpose of improving accounting and financial reporting for postemployment benefits other than pensions (OPEB). The Statement established standards for measuring and recognizing OPEB liabilities, OPEB expenses, and the related deferred inflows and deferred outflows of resources. The Statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan, similar to the requirements under GASB Statement No. 68 for pension liability reporting. The Statement also addresses standards for OPEB note disclosures and required supplementary information. Previous to the implementation of this Standard, the OPEB liabilities were not recorded in the District's financial statements. The Standard requires this change to be applied retroactively. As a result of this implementation, which was effective July 1, 2017, the beginning net position has been adjusted to reflect the beginning of year balances of the net OPEB liability and related deferrals of inflows and outflows of resources. This restatement of net position was a decrease of beginning net position of \$2,776,222 to a restated balance of \$(8,130,101).

Note 14 – Upcoming Accounting and Reporting Changes

GASB has issued Statement No. 84, *Fiduciary Activities*, to improve accounting and financial reporting over fiduciary activities. The Statement establishes criteria for identifying fiduciary activities and whether these identified fiduciary activities should be reported in a separate fiduciary fund in the basic financial statements. The Statement aims to enhance consistency and comparability for assessing government accountability and stewardship over fiduciary activities. Statement No. 84 will be effective for the District's fiscal year ending June 30, 2020.

Statement No. 87, *Leases*, was issued by the Governmental Accounting Standards Board to increase the usefulness of government financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. The Statement also addresses standards for note disclosures to include information regarding the timing, significance, and purpose of a government's leasing arrangements. Statement No. 87 will be effective for the District's fiscal year ending June 30, 2021.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, was issued to improve noted disclosures related to debt, including clarifying which liabilities should be included when governments disclose information regarding debt. The Statement requires the disclosure of essential information related to debt including unused lines of credit, collateral pledged as debt security, and other significant terms. Statement No. 88 will be effective for the District's fiscal year ending June 30, 2019.

Required Supplementary Information

Pittsford Area Schools
 Budgetary Comparison Schedule - General Fund
 Year Ended June 30, 2018

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Local sources	\$ 434,911	\$ 477,863	\$ 502,665
State sources	4,167,359	4,167,852	4,190,059
Federal sources	164,324	135,193	133,832
Total revenues	<u>4,766,594</u>	<u>4,780,908</u>	<u>4,826,556</u>
Expenditures:			
Instruction:			
Basic programs	2,638,584	2,526,042	2,559,329
Added needs	577,142	509,112	642,854
Support services:			
Pupil	110,504	259,995	104,564
Instructional staff	110,733	55,371	48,655
General administration	153,209	153,061	148,563
School administration	241,931	221,847	217,537
Business	140,799	133,929	125,396
Operation & maintenance	461,665	480,652	400,437
Pupil transportation	342,662	356,308	339,873
Central services	68,286	43,120	51,417
Athletic activities	13,209	178,001	194,542
Total expenditures	<u>4,858,724</u>	<u>4,917,438</u>	<u>4,833,167</u>
Revenues Over (Under) Expenditures	<u>(92,130)</u>	<u>(136,530)</u>	<u>(6,611)</u>
Other Financing Sources (Uses):			
Transfers in	25,988	25,808	10,000
Total other financing sources (uses)	<u>25,988</u>	<u>25,808</u>	<u>10,000</u>
Net Changes in Fund Balances	(66,142)	(110,722)	3,389
Fund Balances - Beginning of Year	<u>399,648</u>	<u>399,648</u>	<u>399,648</u>
Fund Balances - End of Year	<u>\$ 333,506</u>	<u>\$ 288,926</u>	<u>\$ 403,037</u>

Pittsford Area Schools

Schedule of the District's Proportionate Share of the Net Pension Liability of the MPSERS Plan
Last Four Fiscal Years (Amounts Determined Each Year as of September 30)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of net pension liability (%)	<u>0.03092228%</u>	<u>0.03203173%</u>	<u>0.03245186%</u>	<u>0.03357%</u>
District's proportionate share of the net pension liability	<u>\$ 8,013,277</u>	<u>\$ 7,991,655</u>	<u>\$ 7,926,375</u>	<u>\$ 7,394,150</u>
District's covered payroll	<u>\$ 2,545,672</u>	<u>\$ 2,683,331</u>	<u>\$ 2,709,393</u>	<u>\$ 3,292,135</u>
District's proportionate share of net pension liability as a percentage of its covered payroll	<u>314.78%</u>	<u>297.83%</u>	<u>292.55%</u>	<u>224.60%</u>
Plan fiduciary net position as a percentage of total pension liability	<u>64.21%</u>	<u>63.27%</u>	<u>63.17%</u>	<u>66.20%</u>

Pittsford Area Schools

Schedule of the District's Pension Contributions to the MPSERS Plan
Last Four Fiscal Years (Amounts Determined Each Year as of June 30)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required pension contributions	\$ 741,510	\$ 715,035	\$ 756,960	\$ 592,061
Pension contributions in relation to statutorily required contributions	<u>741,510</u>	<u>715,035</u>	<u>756,960</u>	<u>592,061</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	<u>\$ 2,503,057</u>	<u>\$ 2,580,547</u>	<u>\$ 2,666,363</u>	<u>\$ 2,720,515</u>
Pension contributions as a percentage of covered payroll	<u>29.62%</u>	<u>27.71%</u>	<u>28.39%</u>	<u>21.76%</u>

Pittsford Area Schools
Notes to Required Supplementary Information Pension Schedules
Year Ended June 30, 2018

Changes of Benefit Terms: There were no changes of benefit terms in 2017.

Changes of Assumptions: The actuarial assumption regarding the investment rate of return for MIP and Basic plans changed from 8.0% to 7.5% effective for the State's fiscal year ended September 30, 2017.

Pittsford Area Schools

Schedule of the District's Proportionate Share of the Net OPEB Liability of the MPSERS Plan
Fiscal Year (Amounts Determined Each Year as of September 30)

	<u>2017</u>
District's proportion of net OPEB liability (%)	<u>0.03094506%</u>
District's proportionate share of the net OPEB liability	<u>\$ 2,740,331</u>
District's covered payroll	<u>\$ 2,545,672</u>
District's proportionate share of net OPEB liability as a percentage of its covered payroll	<u>107.65%</u>
Plan fiduciary net position as a percentage of total OPEB liability	<u>36.39%</u>

Pittsford Area Schools

Schedule of the District's OPEB Contributions to the MPSERS Plan
Fiscal Year (Amounts Determined Each Year as of June 30)

	<u>2018</u>
Statutorily required OPEB contributions	\$ 204,118
OPEB contributions in relation to statutorily required contributions	<u>204,118</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered payroll	<u>\$ 2,503,057</u>
OPEB contributions as a percentage of covered payroll	<u>8.15%</u>

Pittsford Area Schools
Notes to Required Supplementary Information OPEB Schedules
Year Ended June 30, 2018

Changes of Benefit Terms: There were no changes of benefit terms in 2017.

Changes of Assumptions: There were no changes of benefit assumptions in 2017.

Other Supplementary Information

Pittsford Area Schools
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

	<u>Special Revenue</u>	<u>Debt Fund</u>	<u>Capital Projects</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service Fund</u>	<u>2016 School Improvement</u>	<u>Sinking Fund</u>	<u>Capital Projects</u>	
<u>Assets</u>					
Cash and investments	\$ 3,575	\$ 54,230	\$ 23,438	\$ 108,533	\$ 189,776
Receivables from other governments	1,891	-	-	-	1,891
Due from other funds	59,753	-	3,762	7,940	71,455
Inventories	2,046	-	-	-	2,046
Total assets	<u>\$ 67,265</u>	<u>\$ 54,230</u>	<u>\$ 27,200</u>	<u>\$ 116,473</u>	<u>\$ 265,168</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 23	\$ -	\$ -	\$ -	\$ 23
Unearned revenue	3,118	-	-	-	3,118
Accrued salaries and related	18,062	-	-	-	18,062
Total liabilities	<u>21,203</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,203</u>
Fund Balances:					
Nonspendable:					
Inventories	2,046	-	-	-	2,046
Restricted	44,016	54,230	27,200	116,473	241,919
Total fund balances	<u>46,062</u>	<u>54,230</u>	<u>27,200</u>	<u>116,473</u>	<u>243,965</u>
Total liabilities and fund balances	<u>\$ 67,265</u>	<u>\$ 54,230</u>	<u>\$ 27,200</u>	<u>\$ 116,473</u>	<u>\$ 265,168</u>

Pittsford Area Schools
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2018

	<u>Special Revenue</u>	<u>Debt Fund</u>	<u>Capital Projects</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service Fund</u>	<u>2016 School Improvement</u>	<u>Sinking Fund</u>	<u>Capital Projects</u>	
Revenues:					
Local sources	\$ 58,161	\$ 156,459	\$ 96,971	\$ 734	\$ 312,325
State sources	11,908	-	-	-	11,908
Federal sources	177,342	-	-	-	177,342
Total revenues	<u>247,411</u>	<u>156,459</u>	<u>96,971</u>	<u>734</u>	<u>501,575</u>
Expenditures:					
Food service activities	266,634	-	-	-	266,634
Debt service	-	118,465	-	-	118,465
Capital outlay	-	-	144,109	339,387	483,496
Total expenditures	<u>266,634</u>	<u>118,465</u>	<u>144,109</u>	<u>339,387</u>	<u>868,595</u>
Revenues Over (Under) Expenditures	<u>(19,223)</u>	<u>37,994</u>	<u>(47,138)</u>	<u>(338,653)</u>	<u>(367,020)</u>
Other Financing Sources (Uses):					
Transfers out	(10,000)	-	-	-	(10,000)
Net other financing sources (uses)	<u>(10,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,000)</u>
Net Changes in Fund Balances	(29,223)	37,994	(47,138)	(338,653)	(377,020)
Fund Balances - Beginning of Year	<u>75,285</u>	<u>16,236</u>	<u>74,338</u>	<u>455,126</u>	<u>620,985</u>
Fund Balances - End of Year	<u>\$ 46,062</u>	<u>\$ 54,230</u>	<u>\$ 27,200</u>	<u>\$ 116,473</u>	<u>\$ 243,965</u>

Pittsford Area Schools
Schedule of Bonded Indebtedness
June 30, 2018

	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Fiscal Year Interest Requirements</u>	<u>Amount of Annual Maturity</u>
2016 School Improvement Bonds	June 7, 2016	\$ 910,000	1.35%	5/1/2019	\$ 12,310	\$ 110,000
			1.60%	5/1/2020	10,825	110,000
			1.85%	5/1/2021	9,065	110,000
			2.00%	5/1/2022	7,030	110,000
			2.05%	5/1/2023	4,830	115,000
			2.15%	5/1/2024	2,473	115,000
					<u>\$ 46,533</u>	<u>\$ 670,000</u>



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CPAS AND CONSULTANTS

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

Board of Education
Pittsford Area Schools
Pittsford, 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 Pittsford Area Schools as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 30, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2018-001, 2018-002, and 2018-003 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2018-004 to be a significant deficiency.

2018-001 – Financial Statement Preparation

Criteria or Specific Requirement: It is management's responsibility to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

Condition: As is the case with many smaller and medium-sized entities, the District has relied on its independent external auditors to assist with the preparation of the financial statements and footnotes.

Cause: The District has determined that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary expertise required to perform this task internally.

Effect: The District lacks complete internal control over the preparation of financial statements in accordance with GAAP, and instead has relied on the external auditors for this expertise.

Recommendation: We do not recommend any changes to the situation at this time and communicate this as required by professional standards. We believe this meets the definition of a material weakness as defined in professional standards.

Views of Responsible Officials and Planned Corrective Action: We are aware of this deficiency but believe it is not cost beneficial for us to develop this expertise. We have reviewed and approved the audit report before issuance but expect to utilize the expertise of our auditors going forward.

2018-002 – Material Adjustments

Criteria or Specific Requirement: It is management's responsibility to prepare the financial statements in accordance with generally accepted accounting principles (GAAP) and implement adequate controls over financial reporting.

Condition: During the course of the audit, the auditors proposed material adjustments.

Recommendation: We recommend the District implement a review process to ensure financial statements are appropriately adjusted.

Views of Responsible Officials and Planned Corrective Action: The District had a new business manager during the 2016-2017 year who is continuing to attend training and working with the ISD for a full understanding of the year-end adjustments required. We expect this situation to be corrected going forward beginning with the June 30, 2019 year.

2018-003 – Internal Controls

Criteria or Specific Requirement: It is management's responsibility to prepare the financial statements in accordance with generally accepted accounting principles (GAAP) and implement adequate controls over financial reporting including the budget.

Condition: During the course of the audit, the auditors noted several areas of internal control that were not effective including the recording of year-end adjustments, interim financial statement review, and a budget overage.

Cause: A change in the District's business office personnel caused a period of transition in the District's control system.

Effect: There is potential for material misstatements due to the weaknesses identified in internal control.

2018-003 – Internal Controls (Continued)

Recommendation: We recommend management review control procedures in these areas to determine appropriate steps to improve and tighten control.

Views of Responsible Officials and Planned Corrective Action: We have reviewed our system of internal controls and will be implementing changes to ensure the control system is adequate for ensuring financial reporting is appropriate and accurate. This update is expected to be completed by December 31, 2018.

2018-004 – Federal Award Internal Controls

Criteria or Specific Requirement: The District is required to implement adequate controls over the recording of federal grant activity and the requesting of federal funds.

Condition: During the year under audit, there was a lack of review over the recording of federal grant expenditures and the requesting of federal reimbursements for Title funds.

Recommendation: The District should review the control procedures related to the area of federal grants and take steps to ensure controls have been properly implemented and are operating according to the design.

Views of Responsible Officials and Planned Corrective Action: We have implemented additional review procedures to ensure the supporting documentation including the general ledger is reconciled to the cash requests prior to submission. The business manager is responsible for implementation and it has already begun.

The District's Response to Findings

Pittsford Area Schools' response to the findings identified in our audit are described previously. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pittsford Area Schools' financial statements are free of 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.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

October 30, 2018

Pittsford Area Schools

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Erin Cole, Secretary
Stacie Clark, Treasurer
Sandi Fish, Trustee
Shane Miller, Trustee
Nathan Wickard, Trustee

Corrective Action Plan

Fiscal Year 2017-2018

Contact Person: Business Manager (517) 523-3481

Finding 2018-001 – Preparation of Financial Statements

We are aware of this deficiency but believe it is not cost beneficial for us to develop this expertise. We have reviewed and approved the audit report before issuance but expect to utilize the expertise of our auditors going forward.

Finding 2018-002 – Material Adjustments

The District has a new business manager year who is attending training and continuing to work with the ISD for a full understanding of the year-end adjustments required. We expect this situation to be corrected going forward beginning with the June 30, 2019 year.

Finding 2018-003 – Internal Controls

We have reviewed our system of internal controls and will be implementing changes to ensure the control system is adequate for ensuring financial reporting is appropriate and accurate. This update is expected to be completed by December 31, 2018.

Finding 2018-004 – Internal Controls over Grant Reporting

We have implemented additional review procedures to ensure the supporting documentation including the general ledger is reconciled to the cash requests prior to submission. The business manager is responsible for this implementation and it has already begun.

Sincerely,



Greg Mallar, Business Manager