SHELBY PUBLIC SCHOOLS
Oceana County, Michigan

Annual Financial Report

For the year ended June 30, 2018

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Hungerford Nichols CPAs + Advisors
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INDEPENDENT AUDITOR'S REPORT

October 19, 2018

The Board of Education
Shelby Public Schools

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Emphasis of Matter

Change in Accounting Principle

As discussed in Note K to the financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* for the fiscal year ended June 30, 2018. Our opinion is not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Shelby Public Schools' basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied 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 fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2018 on our consideration of Shelby Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Shelby Public Schools' internal control over financial reporting and compliance.

Hungerford Nichols

Certified Public Accountants
Grand Rapids, Michigan

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Shelby Public Schools ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of four parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Position and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.

- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.

    - *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

    - *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data; Required Supplementary Information includes pension and OPEB information schedules; Other Supplementary Information follows and includes combining and individual fund statements and schedules.

District-wide Statements

The District-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position, and how it has changed. Net position - the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources- is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities*: The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

New Accounting Pronouncements Implemented

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the fiscal year ended June 30, 2018. This Statement establish standards for recognizing and measuring (OPEB) liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB plans, the Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actual present value, and attribute that present value to periods of employee service. These changes resulted in a reduction of $7,313,306 in district-wide net position as of July 1, 2017, (to record the beginning net OPEB liability of $7,728,833 less the OPEB contributions made after the measurement date of $415,527) and now include the *net OPEB liability* of the District of $7,652,152 at June 30, 2018.

Condensed District-wide Financial Information

The Statement of Net Position provides financial information on the District as a whole.

	2017	2016
Assets		
Current assets	$ 4,050,215	$ 4,268,246
Net Capital Assets	12,697,418	12,599,592
Total Assets	**16,747,633**	**16,867,838**
Deferred Outflows of Resources	**5,729,266**	**3,834,524**
Liabilities		
Current liabilities	2,378,732	2,213,614
Noncurrent liabilities	2,442,077	3,469,496
Net pension liability	22,377,764	21,723,028
Net OPEB	7,652,152	-
Total Liabilities	**34,850,725**	**27,406,138**
Deferred Inflows of Resources	**1,617,702**	**785,659**
Net Position		
Net investment in capital assets	10,562,013	9,601,106
Restricted	532,279	1,006,967
Unrestricted (deficit)	(25,085,820)	(18,097,508)
Total Net Position	**$ (13,991,528)**	**$ (7,489,435)**

The Statement of Activities presents changes in net position from operating results:

	2017	2016
Program Revenues		
Charges for services	$ 124,261	$ 85,532
Operating grants	5,716,425	5,444,842
General Revenues		
Property taxes	3,651,706	3,808,362
State school aid, unrestricted	6,771,979	6,365,076
Interest and investment earnings	16,781	12,010
Other	467,843	110,803
Total Revenues	16,748,995	15,826,625
Expenses		
Instruction	8,456,966	8,486,531
Supporting services	5,314,015	5,227,370
Community services	245,730	567,593
Food service	1,210,837	1,206,448
Interest on long-term debt	105,740	132,613
Depreciation (unallocated)	604,494	545,786
Total Expenses	15,937,782	16,166,341
Increase (Decrease) in net assets	811,213	(339,716)
Net Position, Beginning of Year as Restated	(14,802,741)	(7,149,719)
Net Position, End of Year	$ (13,991,528)	$ (7,489,435)

Financial Analysis of the District as a Whole

Total revenues exceeded expenses by $811,213, increasing total net position as restated from a deficit of $14,802,741 to a deficit of $13,991,528. Unrestricted net assets decreased by $6,988,312 to a deficit of $25,085,820 at June 30, 2018. This large decrease is mainly due to the restatement of net position at July 1, 2017 due to the new accounting pronouncement, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The District's net pension liability, including deferred outflows and inflows of resources, increased by $159,098 during the fiscal year. In addition, the District's net OPEB liability, including outflows and inflows of resources, increased by $89,981 during the fiscal year.

Property taxes and state aid accounting for most of the District's revenue, contributing about 62% of the District's total revenue. Another 34% came from state and federal aid for specific programs and the remainder from fees charged for services and miscellaneous sources.

The total cost of all programs was $15.9 million. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (67 percent). The District's operating and maintenance services for 10 percent of total costs.

Fund Financial Statements

The *fund financial statements* provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District utilizes two kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.

- *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others, such as Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Shelby Public Schools' funds are described as follows:

Major Funds

<u>General Fund</u>
The General Fund is the District's primary operating fund. The General Fund had total revenues of $14,317,953, total other financing sources of $340,144, total expenditures of $14,483,646 and total other financing uses of $10,170. It ended the fiscal year with a fund balance of $2,092,285, up from $1,928,004 as of June 30, 2017.

Nonmajor Funds

Special Revenue Fund
The District operates one Special Revenue Fund, for the Food Service Fund. Total revenues were $1,253,470, total other financing sources were $10,170, and total expenditures were $1,222,456. The ending fund balance was $62,614, up from $21,430 at June 30, 2017.

Debt Service Funds
The District operates two Debt Service Funds. Total revenues were $787,270, total other financing sources were $5,995, total expenditures were $949,969 and total other financing uses were $5,995. The funds ended the year with fund balances of $346,958, down from $509,657 at June 30, 2017.

Capital Projects Fund
The District has one nonmajor capital projects fund. The Construction Fund had total other financings uses of $340,144, leaving a fund balance of $135,736 at June 30, 2018.

Fiduciary Fund
The District operates the Student Activity Fund. The assets of these funds are being held for the benefit of the District's students. Balances on hand at June 30, 2018 totaled $209,562.

General Fund Budgetary Highlights

Each month as necessary, the School District amends its budget as it attempts to deal with changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. Changes to the General Fund budget were as follows:

- Budgeted revenue increased by $1,427,220 due to increased Federal Grants and Categorical, monies received from the West Shore Educational Service District, changes in At Risk funding and local tax revenue due to property value changes.

- Budgeted expenditures increased by $1,932,340 to cover increased costs of: Elementary , Middle School and High School Expenses, Compensatory Education, Technology upgrades, Pupil Transportation, Care of Children (Head Start) and Community Services. These budgetary changes were necessary to match expenditures with the increased federal revenue.

Capital Asset and Debt Administration

Capital Assets
By the end of 2018, the District had invested $23.8 million in a broad range of capital assets, including land and land improvements, school buildings, athletic facilities, technology equipment, school buses, and administrative offices. This amount represents an increase in net capital assets of $97,826 from June 30, 2017. More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.

The net book value of District assets at June 30, 2018 are as follows:

Land and permanent improvements	$ 231,991
Buildings and additions	11,413,459
Furniture and equipment	583,678
Vehicles	468,290
Net Capital Assets	$ 12,697,418

Long-term Debt
At year end, the District had $3.4 million in general obligation bonds and other long-term debt outstanding – a decrease of $937,419 from the prior year.

- The District continued to pay down its general obligation debt, retiring $863,081 of outstanding bonds. No new bonds were issued during 2017-18.

We present more detailed information about our long-term liabilities in Note F to the Notes to Basic Financial Statements.

Factors Bearing on the District's Future

The elected officials and administration considered many factors when setting the School District's 2018-19 fiscal year budget. Two of the most important factors affecting the budget are student count and fund balance. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2018-19 fiscal year is 90 percent of the upcoming October 2018 student count and 10 percent of the prior February 2018 student count. The 2018-19 fiscal year budget was adopted in June 2018, based on an estimate of students that will be enrolled in October 2018. Shelby Public Schools has been a declining enrollment district for several years and we do not expect to see that change.

Based on early enrollment data at the start of the 2018-2019 school year, no increase is anticipated in the fall 2018 student count over the February 2018 count. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Due to legislative insurance caps, the health insurance cost increase will be limited. The cost of retirement will increase from a range of 36.53% to 38.63% to a range of 37.53% to 42.37% on October 1, 2018. This is due to the decision of the Office of Retirement Services plan to flow through each district a UAAL stabilization cost of 12.21% of the prior year's payroll. This in turn, artificially increases both the district's state revenue and pension expenditures. Increased fuel and utility costs are also anticipated. These factors will make the district very selective when considering changes that will increase costs.

Because the school district's revenue is heavily dependent on State funding and the health of the State's School Aid fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to school districts. The State periodically holds a revenue consensus conference to estimate revenue. If State revenues fall short of expectations, the district will likely not receive the funding expected and need to adjust expenditures if possible.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Shelby Public Schools, 525 N. State Street, Shelby, Michigan 49455.

BASIC FINANCIAL STATEMENTS

SHELBY PUBLIC SCHOOLS
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets	
Cash	$ 700
Cash equivalents, deposits and investments (Note B)	1,956,593
Accounts receivable	3,317
Due from other governmental units (Note C)	2,072,802
Inventory	7,497
Prepaid expenses	9,306
Capital assets, not being depreciated (Note E)	231,991
Capital assets being depreciated, net (Note E)	12,465,427
Total Assets	16,747,633
Deferred Outflows of Resources	
Deferred pension amounts	5,221,702
Deferred OPEB amounts	507,564
Total Deferred Outflows of Resources	5,729,266
Liabilities	
Accounts payable	31,153
Due to other governmental units	423,974
Accrued interest payable	13,029
Salaries payable	674,695
Payroll related accrued liabilities	190,964
Unearned revenue	91,836
Long-term liabilites (Note F):	
Due within one year	953,081
Due in more than one year	2,442,077
Net pension liability	22,377,764
Net OPEB liability	7,652,152
Total Liabilities	34,850,725
Deferred Inflows of Resources	
Deferred pension amounts	1,359,003
Deferred OPEB amounts	258,699
Total Deferred Inflows of Resources	1,617,702
Net Position	
Net investment in capital assets	10,562,013
Restricted for:	
Debt service	333,929
Capital projects	135,736
Food service	62,614
Unrestricted (deficit)	(25,085,820)
Total Net Position	$ (13,991,528)

See accompanying notes to basic financial statements.

SHELBY PUBLIC SCHOOLS
Statement of Activities
For the year ended June 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenue and Changes in Net Position
Governmental Activities				
Instruction	$ 8,456,966	$ 1,641	$ 4,079,565	$ (4,375,760)
Supporting services	5,314,015	12,710	429,620	(4,871,685)
Community services	245,730	63,719	-	(182,011)
Food service	1,210,837	46,191	1,207,240	42,594
Interest on long-term debt	105,740	-	-	(105,740)
Depreciation - unallocated	604,494	-	-	(604,494)
Total Governmental Activities	$ 15,937,782	$ 124,261	$ 5,716,425	(10,097,096)
	General Revenues			
	Taxes:			
	Property taxes, levied for general operations			2,881,963
	Property taxes, levied for debt service			769,743
	State school aid, unrestricted			6,771,979
	Interest and investment earnings			16,781
	Other			467,843
	Total General Revenues			10,908,309
	Change in Net Position			811,213
	Net Position - Beginning of Year, as Restated (Note K)			(14,802,741)
	Net Position - End of Year			$ (13,991,528)

See accompanying notes to basic financial statements.

SHELBY PUBLIC SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2018

	General	Nonmajor	Total
Assets			
Cash	$ 500	$ 200	$ 700
Cash equivalents, deposits and investments (Note B)	1,418,729	537,864	1,956,593
Accounts receivable	3,002	315	3,317
Due from other funds (Note D)	37,504	-	37,504
Due from other governmental units (Note C)	2,030,481	42,321	2,072,802
Inventory	-	7,497	7,497
Prepaid expenditures	9,281	25	9,306
Total Assets	$ 3,499,497	$ 588,222	$ 4,087,719
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 31,153	$ -	$ 31,153
Due to other funds (Note D)	-	37,504	37,504
Due to other governmental units	422,596	1,378	423,974
Salaries payable	670,782	3,913	674,695
Payroll related accrued liabilities	190,845	119	190,964
Unearned revenue	91,836	-	91,836
Total Liabilities	1,407,212	42,914	1,450,126
Fund Balances			
Nonspendable	9,281	7,522	16,803
Restricted	-	537,786	537,786
Committed for QZAB bond repayment	114,405	-	114,405
Assigned for subsequent years expenditures	26,947	-	26,947
Unassigned	1,941,652	-	1,941,652
Total Fund Balances	2,092,285	545,308	2,637,593
Total Liabilities and Fund Balances	$ 3,499,497	$ 588,222	$ 4,087,719

See accompanying notes to basic financial statements.

SHELBY PUBLIC SCHOOLS
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2018

Total governmental fund balances		$ 2,637,593
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is $23,826,525 and accumulated depreciation is $11,129,107.		12,697,418
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
General obligation bonds	$ (2,135,405)	
Accumulated vacation/sick leave	(1,259,753)	(3,395,158)
Accrued interest is not included as a liability in governmental funds.		(13,029)
Net pension liability and related deferred outflows/inflows of resources are not included as assets/liabilities in governmental funds:		
Net pension liability	(22,377,764)	
Deferred outflows	5,221,702	
Deferred inflows	(1,359,003)	(18,515,065)
Net OPEB liability and related deferred outflows/inflows of resources are not included as assets/liabilities in governmental funds:		
Net OPEB liability	(7,652,152)	
Deferred outflows	507,564	
Deferred inflows	(258,699)	(7,403,287)
Total net position - governmental activities		$ (13,991,528)

See accompanying notes to basic financial statements.

SHELBY PUBLIC SCHOOLS
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2018

	General	Nonmajor	Total
Revenues			
Local sources	$ 3,032,336	$ 816,675	$ 3,849,011
State sources	9,204,126	68,941	9,273,067
Federal sources	1,570,661	1,155,124	2,725,785
Interdistrict sources	510,830	-	510,830
Total Revenues	14,317,953	2,040,740	16,358,693
Expenditures			
Instruction	8,403,258	-	8,403,258
Supporting services	5,676,378	-	5,676,378
Community services	246,708	-	246,708
Interdistrict	134,221	-	134,221
Food service	-	1,222,456	1,222,456
Debt service:			
Principal repayment	23,081	840,000	863,081
Interest and fiscal charges	-	109,969	109,969
Total Expenditures	14,483,646	2,172,425	16,656,071
Excess (Deficiency) of Revenues Over Expenditures	(165,693)	(131,685)	(297,378)
Other Financing Sources (Uses)			
Transfers in	340,144	16,165	356,309
Transfers out	(10,170)	(346,139)	(356,309)
Total Other Financing Sources (Uses)	329,974	(329,974)	-
Net Change in Fund Balances	164,281	(461,659)	(297,378)
Fund Balances, Beginning of Year	1,928,004	1,006,967	2,934,971
Fund Balances, End of Year	$ 2,092,285	$ 545,308	$ 2,637,593

SHELBY PUBLIC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the year ended June 30, 2018

Net change in fund balances - total governmental funds			$ (297,378)
Amounts reported for governmental activities in the Statement of Activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and the cost is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:			
	Capital outlays	$ 312,018	
	Depreciation expense	(604,494)	(292,476)
In the Statement of Activities, only the adjustment of capital assets is reported, whereas in the governmental funds, the adjustment increased financial resources. Thus, the change in net position differs from the change in fund balance by these adjustments			390,302
Repayment of principal on long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities:			
Repayment of general obligation bonds			863,081
Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues regardless of when it is paid.			4,229
In the Statement of Net Position, early retirement incentive, accumulated vacation pay and compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits used/paid ($225,281) exceeded the amounts earned ($150,943).			74,338
The changes in net pension liability and related deferred outflows/inflows of resources are not included as revenues/expenditures in governmental funds.			159,098
The changes in net OPEB liability and related deferred outflows/inflows of resources are not included as revenues/expenditures in governmental funds.			(89,981)
Total changes in net position - governmental activities			$ 811,213

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SHELBY PUBLIC SCHOOLS
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2018

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Local sources	$ 3,024,552	$ 3,185,193	$ 3,032,336	$ (152,857)
State sources	8,540,585	8,910,659	9,204,126	293,467
Federal sources	1,072,701	1,873,700	1,570,661	(303,039)
Interdistrict sources	437,256	522,762	510,830	(11,932)
Total Revenues	13,075,094	14,492,314	14,317,953	(174,361)
Expenditures				
Instruction:				
Basic programs	5,754,502	6,074,667	6,062,843	11,824
Added needs	2,209,145	2,497,707	2,340,415	157,292
Supporting services:				
Pupil services	430,614	417,908	395,719	22,189
Instructional staff services	504,303	674,260	619,998	54,262
General administrative services	353,663	326,113	305,007	21,106
School administrative services	898,828	948,807	948,061	746
Business services	358,455	450,808	440,066	10,742
Operation and maintenance services	1,374,536	1,549,507	1,461,777	87,730
Pupil transportation services	645,158	966,289	884,740	81,549
Central services	102,866	249,990	244,389	5,601
Other supporting services	403,932	401,703	376,621	25,082
Community services	96,881	373,852	246,708	127,144
Interdistrict	-	133,612	134,221	(609)
Debt service:				
Principal repayment	23,081	23,081	23,081	-
Total Expenditures	13,155,964	15,088,304	14,483,646	604,658
Excess (Deficiency) of Revenues Over Expenditures	(80,870)	(595,990)	(165,693)	430,297
Other Financing Sources (Uses)				
Transfers in	-	235,193	340,144	104,951
Tranfers out	-	(18,966)	(10,170)	8,796
Total Other Financing Sources (Uses)	-	216,227	329,974	113,747
Net Change in Fund Balances	(80,870)	(379,763)	164,281	544,044
Fund Balances, Beginning of Year	1,928,004	1,928,004	1,928,004	-
Fund Balances, End of Year	$ 1,847,134	$ 1,548,241	$ 2,092,285	$ 544,044

See accompanying notes to basic financial statements.

SHELBY PUBLIC SCHOOLS
Fiduciary Fund
Statement of Fiduciary Assets and Liabilities
June 30, 2018

	Agency Fund
Assets	
Cash equivalents, deposits and investments (Note B)	$ 209,562
Liabilities	
Due to student groups	$ 209,562

NOTES TO BASIC FINANCIAL STATEMENTS

Note A – Summary of Significant Accounting Policies

The Shelby Public School District (the "District") was organized under the School Code of the State of Michigan, and services a population of approximately 1,303 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District's significant accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District's financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. District-wide and Fund Financial Statements

District-wide Financial Statements - The district-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District does not have any *business-type activities*.

The Statement of Net Position is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District's net position is reported in three parts: net investment in capital assets, restricted net position, and unrestricted net position.

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

Separate financial statements are provided for governmental 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. The General Fund is the District's only major fund. Non-major funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate schedules.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a State-wide formula. The foundation allowance is funded from a combination of State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation allowance is provided from the State's School Aid Fund and is recognized as revenues in accordance with State law and accounting principles generally accepted in the United States of America.

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

Major Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Nonmajor Funds:

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.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Fund maintained by the District is the Food Service Special Revenue Fund.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

Capital Project Funds—Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The funds are retained until the purpose for which the funds were created has been accomplished.

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code. The Capital Projects Funds include capital project activities funded with sinking fund millage. The District has complied with the applicable provisions of Section 1212 (I) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

Agency Funds—Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Shelby Public Schools has also adopted budgets for its Special Revenue Funds. A school district's Budget Appropriations Act (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the function level. All appropriations lapse at the end of the fiscal year.

Shelby Public Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent and Assistant Superintendent of Finance to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them. The legal level of budgetary control is at the function level.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventories/Prepaid Items

Inventories are valued at cost (first-in, first-out), and are accounted for using the consumption method. Inventories of the Food Service Fund consist of food and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide and fund financial statements. The cost of prepaid items is recorded as expenses/expenditures when consumed (consumption method) rather than when purchased.

8. Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed $5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, buildings and improvements, furniture and equipment, and vehicles are depreciated using the straight-line method over the following estimated useful lives:

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

9. Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

10. Accumulated Vacation Pay

Accumulated vacation pay at June 30, 2018 has been computed and recorded in the district-wide financial statements of the District. At June 30, 2018, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for accumulated sick leave and severance pay amounted to $1,259,753.

11. Retirement Plan

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions,* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, were implemented by the District during the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actual present value, and attribute that present value to periods of employee service requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular Cost sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans – pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the 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 School Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. MPSERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. For this purpose, benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Related plan investments are reported at fair value.

12. Postemployment Benefits Other Than Pensions

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented by the District during the fiscal year ended June 30, 2018. This Statement establish standards for recognizing and measuring (OPEB) liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB plans, the Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actual present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about OPEB are also addressed. Distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits provided are administered through trusts that meet specific criteria. Cost-sharing employers are those whose employees are provided with defined benefit OPEB through cost-sharing multiple-employer OPEB plans—OPEB plans in which the OPEB obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides OPEB through the OPEB plan.

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

13. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has two such items that qualify for reporting in this category: the deferred outflows relating to the recognition of net pension liability on the financial statements and the deferred outflows relating to the recognition of net OPEB liability on the financial statements.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two types of items that qualify for reporting in this category: the deferred inflows of resources relating to the recognition of net pension liability on the financial statements and the deferred inflows of resources relating to the recognition of net OPEB liability on the financial statements.

14. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws or regulations from other governments.

15. Fund Balance

The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. The stated objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, detailed as follows:

- Nonspendable – resources that cannot be spent because they are either (a) not in spendable form (inventories and prepaid amounts) or (b) legally or contractually required to be maintained intact (the principal of a permanent fund).
- Restricted – resources that cannot be spent because of (a) constraints externally imposed by creditors (debt covenants), grantors, contributors, or laws or regulations or (b) imposed by law through constitutional provisions or enabling legislation and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.
- Committed – resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (Board of Education). Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified uses by taking the same type of action it employed to previously commit those amounts. Committed fund balance does not lapse at year end.

- Assigned – resources that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body or official to which the governing body has designated the authority to assign amounts to be used for specific purposes. Shelby Public Schools Board of Education has delegated authority to assign fund balances for a specific purpose to the Superintendent and the Assistant Superintendent of Finance. Assigned fund balance does not lapse at year end.
- Unassigned – unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

<u>Prioritization of fund balance use</u> – When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the District to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the District that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

16. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

17. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents, Deposits and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.

- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally charted bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.

- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.

- United States or federal obligation repurchase agreements.

- Banker's acceptances of United States Banks.
- Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.
- Surplus funds investment pools authorized by the Surplus Funds Investment Pool Act.

Balances at June 30, 2018 related to cash equivalents and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Position:	
Governmental activities	$ 1,956,593
Fiduciary Fund:	
Trust and Agency Fund	209,562
	$ 2,166,155

Cash Equivalents

Depositories actively used by the District during the year are detailed as follows:

1. Shelby State Bank
2. Fifth Third Bank
3. Huntington National Bank

Cash equivalents consist of bank public funds checking and savings accounts. Deposits consist of certificates of deposits.

June 30, 2018 balances are detailed as follows:

Cash equivalents	$ 980,916

Custodial Credit Risk Related to Cash Equivalents
Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents was $980,916, and the bank balance was $1,090,749 of which $646,679 was covered by federal depository insurance and $444,070 was uninsured and uncollateralized.

Investments

As of June 30, 2018, the District had the following investments:

Surplus Funds Investment Pool Account:	
Michigan Liquid Asset Fund Plus	$ 1,185,239

The Michigan Liquid Asset Fund Plus (MILAF) is an external pooled investment fund that includes qualified investments in accordance with the applicable sections of the School Code. MILAF is not regulated or registered with the Securities Exchange Commission and reported the same value of the pool shares as the fair value of the District's investment at June 30, 2018. The MILAF fund is rated AAAm by Standard & Poor's rating agency.

Custodial Credit Risk Related to Investments
Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimizes custodial credit risk by limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors with which the District will do business. At June 30, 2018, the District had no investments that were subject to custodial credit risk.

Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy does not specifically address credit risk, but minimizes its credit risk by limiting investments to the types allowed by the State.

Interest Rate Risk
The District minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Concentration of Credit Risk
The District minimizes concentration of credit risk which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The District's investment policy does not limit the amount that may be invested in any one issuer. Excluding U.S. Government guaranteed investments, mutual funds, and pooled investments, no single investment exceeded 5% of total investments at June 30, 2018.

Foreign Currency Risk
The District in not authorized to invest in investments which have this type of risk.

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February 2017 and October 2017. The 2017-18 "Foundation Allowance" for Shelby Public Schools was $7,631 for 1,298 "Full Time Equivalent" students, generating $9,293,266 in state aid payments to the District of which $1,650,199 was paid to the District in July and August 2018 and is included in "Due From Other Governmental Units" of the General Fund and Food Service Special Revenue Fund at June 30, 2018.

Property taxes for the District are levied July 1 and December 1 (the tax lien dates) under a split-levy system by the Townships of Benona, Clay Banks, Ferry, Golden, Grant, Hart, Newfield, Otto, and Shelby, and are due 75 days after the levy date. The taxes are then collected by each governmental unit and remitted to the District. The County of Oceana, through their Delinquent Tax Revolving Funds, advances all delinquent real property taxes at March 1 to the District each year prior to June 30.

Section 1211(1) of 1993 PA 32 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, which ever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

As Shelby Public Schools' electors had previously (May 2013) approved a ten year 18 mill operating millage extension, due to Headlee rollbacks only 17.7678 of non-homestead property tax was levied in the District for 2017.

The District levied 2.39 mills for debt service purposes in 2017, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A and Public Act 36, taxable property is now divided into two categories: PRE and NPRE.

A principal residence exemption property (PRE) is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage" nor any additional voted millage for the retirement of debt.

Non-principal residence exemption property (NPRE) is subject to all District levies. However, since Public Act 36, establishing the Michigan Business Tax, was signed into law, Public Acts 37-40 of 2007 now exempt Industrial

Personal Property from the 6 mill State Education Tax and up to 18 mills of local school district operating millage (includes property under Industrial Facilities Tax exemptions); and exempt Commercial Personal Property from up to 12 mills of local school district operating millage (exceptions may apply).

The District is subject to tax abatements granted by the County of Oceana with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended, provides a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assists in the building of new facilities, and promotes the establishment of high tech facilities. An Industrial Facilities Exemption (IFE) certificate entitles the facility to exemption from ad valorem real and/or personal property taxes for a term up to 12 years as determined by the local unit of government. The agreements entered into by each local unit include claw back provisions should the recipient of the tax abatement fail to fully meet its commitments, such as employment levels and timelines for relocation. The tax abated property taxes are calculated by applying half the local property tax millage rate on the total IFT taxable value. This amounts to a reduction in property tax revenue of approximately 50%.

For the year ended June 30, 2018, the District's property tax revenues were reduced by approximately $35,746 under these agreements.

Note D – Interfund Receivables/Payables and Transfers

Amounts due from (to) other funds, representing interfund receivables and payables for year-end expenditure allocations not reimbursed at June 30, 2018, are detailed as follows:

	Due From	Due To
Major Fund		
General Fund:		
Special Revenue Fund:		
Food Service Special Revenue Fund	$ 37,504	$ -
Nonmajor Funds		
Special Revenue Fund:		
Food Service Special Revenue Fund:		
General Fund	-	37,504
Total All Funds	$ 37,504	$ 37,504

Operating transfers between funds during the year ended June 30, 2018 were as follows:

	Transfers In	Transfers Out
Major Fund		
General Fund:		
Special Revenue Fund:		
Food Service Special Revenue Fund	$ -	$ 10,170
Capital Projects Fund:		
Capital Improvement Fund	340,144	-
Total Major Fund	340,144	10,170
Nonmajor Fund		
Special Revenue Fund:		
Food Service Special Revenue Fund:		
General Fund	10,170	-
Debt Service Funds:		
2009 Debt service Fund	5,995	-
2013 Debt Service Fund	-	5,995
Capital Projects Fund:		
Capital Improvement Funds:		
General Fund	-	340,144
Total Major Fund	16,165	346,139
Total All Funds	$ 356,309	$ 356,309

Note E – Capital Assets

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

	Balances July 1, 2017	Additions	Deductions/ Adjustments	Balances June 30, 2018
Capital assets not being depreciated:				
Land	$ 231,991	$ -	$ -	$ 231,991
Capital assets being depreciated:				
Buildings and additions	20,547,618	$ 35,227	$ (57,360)	20,640,205
Furniture and equipment	2,747,801	186,791	1,294,607	1,639,985
Vehicles	1,574,407	90,000	350,063	1,314,344
Total capital assets being depreciated	24,869,826	$ 312,018	$ 1,587,310	23,594,534
Less accumulated depreciation for:				
Buildings and additions	9,147,069	$ 398,822	$ 319,145	9,226,746
Furniture and equipment	2,269,461	111,980	1,325,134	1,056,307
Vehicles	1,085,695	93,692	333,333	846,054
Total accumulated depreciation	12,502,225	$ 604,494	$ 1,977,612	11,129,107
Total capital assets being depreciated, net	12,367,601			12,465,427
Net Capital Assets	$ 12,599,592			$ 12,697,418

Depreciation expense for the District, totaling $604,494, was not charged to activities of the District, as the District considers its assets to impact multiple activities and allocation is not practical.

Note F – Long-term Debt

Changes in long-term debt for the year ended June 30, 2018 are summarized as follows:

	Debt Payable July 1, 2017	Debt Added	Debt Retired	Debt Payable June 30, 2018
General obligation bonds:				
November 21, 2008 QZAB	$ 138,486	$ -	$ 23,081	$ 115,405
February 24, 2009 refunding bonds	2,745,000	-	725,000	2,020,000
June 26, 2013	115,000	-	115,000	-
Severance Pay	590,047	150,943	85,282	655,708
Compensated absences	744,044	-	139,999	604,045
	$ 4,332,577	$ 150,943	$ 1,088,362	$ 3,395,158

Long-term debt outstanding at June 30, 2018 is comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
General Obligation Bonds				
$345K QZAB Building & Site November 21, 2008:				
Principal maturities of $23K	May 1, 2018	0.00	$ 115,405	$ 23,081
$8,765K Refunding February 24, 2009:				
Principal maturities from $655K to $700K	May 1, 2023	3.63 - 4.00	2,020,000	700,000
Other Obligations				
Severance pay			655,708	90,000
Accumulated sick leave			604,045	140,000
			$ 3,395,158	$ 953,081

The annual requirements to pay principal and interest on long-term bonds and installment purchase agreements outstanding are as follows:

Year Ended June 30	Principal	Interest	Total
2018	$ 723,081	$ 78,175	$ 801,256
2019	688,081	52,800	740,881
2020	678,081	26,200	704,281
2021	23,081	-	23,081
2022	23,081	-	23,081
	$ 2,135,405	$ 157,175	$ 2,292,580

Note G – Retirement Plan

Plan Description

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

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

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

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

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of pension plans offered by MPSERS are detailed as follows:

Plan Name	Plan Type	Plan Status
Member Investment Plan (MIP)	Defined Benefit	Closed
Basic	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

Membership

At September 30, 2017, the System's membership consisted of the following:

Inactive plan members or their beneficiaries currently receiving benefits:	
Regular benefits	189,960
Survivor benefits	17,878
Disability benefits	6,151
Total	**213,989**
Inactive plan members entitled to but not yet receiving benefits:	**18,004**
Active plan members:	
Vested	101,574
Non-vested	102,407
Total	**203,981**
Total plan members	**435,974**

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. Retirement benefits for DB plan members are determined by final average compensation and years of service. 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 rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPSERS who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension 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 the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

Option 1 members voluntarily elected to increase their contributions to the pension fund as noted below, and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic Plan members; 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

Option 2 members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic Plan members, 3.9% for MIP-Fixed, up to 4% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3 members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4 members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Deferred Compensation plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in the 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and Final Average Compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus plan described above and a Deferred Contribution (DC) plan that provides a 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period, as reported to ORS, to elect to opt out of the Pension Plus plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus plan. If they elect to opt out of the Pension Plus plan, their participation in the DC plan will be retroactive to their date of hire.

Pension Reform of 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law, The legislation closed the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan is 6%. Further, the law provides that, under certain conditions, the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The law includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Regular Retirement

The retirement benefit for DB and Pension Plus plan members is based on a member’s years of credited service (employment) and final average compensation (FAC). The FAC is calculated based on the member’s highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period. For a Member Investment Plan (MIP) member who became a member of MPSERS prior to July 1, 2010, the averaging period is 36 consecutive months. For a Pension Plus member who became a member of MPSERS after June 30, 2010, the averaging period is 60 consecutive months. For a Basic Plan member, this period is the 60 consecutive months yielding the highest total wages. The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member’s pension is determined by their pension election under PA 300 of 2012 and is shown below:

Option 1: FAC x total years of service x 1.5%
Option 2: FAC x 30 years of service x 1.5% + FAC x years of service beyond 30 x 1.25%
Option 3: FAC x years of service as of transition date x 1.5% + FAC x years of service after transition date x 1.25%
Option 4: FAC as of transition date x years of service as of transition date x 1.5%

A MIP member who became a member of MPSERS prior to July 1, 2010 may retire at:

- age 46 with 30 or more years of credited service; or
- age 60 with 10 or more years of credited service; or
- age 60 with 5 years of credited service provided the member has worked through his or her 60th birthday and has credited service in each of the five school fiscal years immediately preceding the retirement effective date.

A Pension Plus member who became a member of MPSERS after June 30, 2010 may retire at age 60 with 10 or more years of credited service.

A Basic Plan member may retire at:
- age 55 with 30 or more years of credited service; or
- age 60 with 10 or more years of credited service

There is no mandatory retirement age.

Early Retirement

A MIP or Basic member may retire with an early permanently reduced pension:
- after completing at least 15 but less than 30 years of credited service; and
- after attaining age 55; and
- with credited service in each of the 5 school years immediately preceding the pension effective date.

The early pension is computed in the same manner as a regular pension, but is permanently reduced 0.5% for each full and partial month between the pension effective dare and the date the member will attain age 60.

Deferred Retirement

If a member terminates employment before attaining the age qualification, but after accruing 10 or more years of credited service, the member becomes a deferred member and is eligible for a pension at the time the age qualification is attained.

Non-Duty Disability Benefit

A member with 10 or more years of credited service who becomes totally and permanently disabled due to any non-duty related cause and who has not met the age requirement for a regular pension is eligible for a non-duty disability pension computed in the same manner as an age and service pension, upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by two percent for each year retired; first year 100%, next year 102%, etc.).

Duty Disability Benefit

A member who becomes totally and permanently disabled as a result of a duty-related cause, who has not met the age and service requirement for a regular pension, and who is in receipt of weekly workers' compensation is eligible for a duty disability pension computed in the same manner as an age and service pension (but based upon a minimum of 10 years of service) upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by 2% for each year retired; first year 100%, next year 102%, etc.).

Forms of Payment

The election of a pension option is made at the time of application. Once a member has retired, the option choice is irrevocable. The pension effective date is the first of the calendar month following the date the member has satisfied the age and service requirements, has terminated public school employment and has the completed application forms on file with the System for a period of 15 days. A retroactive pension can be paid for no more than 12 calendar months. Thus, delay in filing the application can result in a loss of some retroactive pension benefits. An applicant may select only one of the following options.

Straight Life Pension – the Straight Life Pension pays the largest level pension a retiree can receive during his or her lifetime and stops with the month of the retiree's death. There are no monthly benefits for a beneficiary. The pension benefit is computed with no beneficiary rights. If the retiree made contributions while an employee and has not received the total accumulated contributions before death, a refund of the balance of the contributions is made to the beneficiary of record. If the retiree did not make any contributions, there will not be payments to any beneficiary.

Survivor Options - Under the Survivor Options, 100% Survivor Pension, 100% Equated, 75% Survivor Pension, 75% Equated, 50% Survivor Pension and 50% Equated, the reduction is an actuarial determination dependent upon the combined life expectancies of a retiree and a beneficiary, and varies from case to case. A beneficiary may only be a spouse, brother, sister, parent or child (including an adopted child) of a retiring member. If the beneficiary predeceases a retiree, the pension will revert to either the Straight Life or Straight Life Equated amount ("pop-up" provision). If, however, a retiree was single at the time of retirement and subsequently married, the retiree can request to nominate a new spouse if they elected the straight life option at retirement. Also, if a retiree was married at the time of retirement and has since been widowed and remarried, the retiree can request to nominate a new spouse as a pension beneficiary as long as they elected a survivor option for the spouse at the time of retirement.

100% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree's death, the same amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

75% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree's death, 75% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

50% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree's death, 50% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

Equated Plan – The Equated Plan may be combined with the Straight Life, 100% Survivor, 75% Survivor, or 50% Survivor pension by any member under age 61, except a disability applicant. The Equated Plan provides a higher pension every month until age 62, at which time the monthly pension is permanently decreased to a lower amount than the Straight Life, 100%, 75%, or 50% Survivor alone would provide.

The intent of the Equated Plan is for the retiree's pension to decrease at age 62 by approximately the same amount as that person's Social Security benefit will provide. The System pension until age 62 should be about the same as the combined System pension and Social Security after age 62.

The projected Social Security pension the retiring member obtains from the Social Security Administration and furnishes to the System is used in the Equated Plan calculation. The actual Social Security pension may vary from the estimate.

NOTE: The reduction in the pension at age 62 pertains to the Equated Plan only and affects only the retiree. A beneficiary under 100% Equated, 75% Equated or 50% Equated will receive the 100%, 75%, or 50% Survivor amount the month following the retiree's death as if the Equated Plan had not been chosen. A beneficiary does not participate in the Equated Plan.

Survivor Benefit

A non-duty survivor pension is available if a Member Investment Plan (MIP) member has 10 years of credited service or, if age 60 or older, with five years of credited service; the date they became a MIP member does not matter. The Basic Plan provides a survivor pension with 15 years of credited service or, if age 60 or older, with 10 years of credited service. The Pension Plus plan provides for a survivor pension with 10 years of credited service. An active member may nominate as a survivor beneficiary a spouse, child(ren) (including adopted child(ren)), brother, sister, or parent. If other than the spouse is nominated and a spouse exists, the spouse must waive this benefit. If no beneficiary has been nominated, the beneficiary is automatically the spouse; or, if there is no spouse, unmarried children under age 18 share the benefit equally until age 18. The benefit is computed as a regular pension but reduced in accordance with an Option 2 (100% survivor pension factor). The pension begins the first of the month following the member's death. In the event of death of a deferred member, the System begins payment to the nominated beneficiary at the time the member would have attained the minimum age qualification.

A duty survivor pension is payable if weekly Workers' Compensation is being paid to the eligible beneficiary due to the member's death. A spouse receives the benefit (based on a minimum of 10 years of service credit) reduced in accordance with a 100% survivor pension factor. If there is no spouse, unmarried children under age 18 share the benefit equally until age 18; if there is no spouse or child(ren), a disabled and dependent parent is eligible.

Post-Retirement Adjustments

A retiree who became a Member Investment Plan (MIP) member prior to July 1, 2010, receives an annual post-retirement non-compounded increase of three percent of the initial pension in the October following twelve months of retirement. Basic Plan members do not receive an annual post-retirement increase, but are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions. Pension Plus members do not receive an annual post-retirement increase.

On January 1, 1990, pre-October 1, 1981 retirees received an increase that ranged from 1% to 22% dependent upon the pension effective date. On October 1, 1990, the base pension of all retirees with an effective pension date of January 1, 1987, or earlier was increased to include all prior post-retirement benefits.

On January 1, 1986, all recipients through calendar year 1985 received a permanent 8% increase that established the 1986 base pension. In addition, each October, retirees with a pension effective date of January 1, 1987, or earlier receive a fixed increase equal to 3% of the base pension. Both increases are deducted from the distribution of excess investment income, if any. Beginning in 1983, eligible recipients receive an annual distribution of excess investment income, if any.

Contributions and Funded Status

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

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

The schedule below summarized pension contribution rate in effect for the plan fiscal year 2017.

Pension Contribution Rates:

Plan Name	Member	District
Member Investment Plan (MIP)	0.0 – 4.0%	19.03%
Basic	3.0 – 7.0 %	19.03%
Pension Plus	3.0 – 6.4%	18.40%
Defined Contribution	0.0%	15.27%

The District's contributions to MPSERS under all pension plans for the year ended June 30, 2018, inclusive of the MSPERS UAAL Stabilization, totaled $2,164,556.

MPSERS Plan Net Pension Liability (in thousands)

Total Pension Liability	$ 73,501,296
Plan Fiduciary Net Position	47,011,783
Net Pension Liability	$ 26,489,513
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	63.96%
Net Pension Liability as a Percentage of Covered Employee Payroll	313.37%
Total Covered Payroll	$ 8,452,983

Proportionate Share of Reporting Unit's Net Pension Liability

At June 30, 2018, the District reported a liability of $22,377,764 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the System during the measurement period by the percent of the pension contributions required from all applicable employers during the measurement period. At September 30, 2017 the District's proportion was .08635312%, which was a decrease from .08707000% at September 30, 2016.

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

For the year ended June 30, 2018, the District recognized pension expense of $2,523,074. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 194,478	$ 109,803
Changes of assumptions	2,451,662	—
Net difference between projected and actual earnings on pension plan investment earnings	—	1,069,804
Changes in proportion and differences between District contributions and proportionate share of contributions	570,516	179,396
District contributions subsequent to the measurement date*	2,005,046	—
Total	$ 5,221,702	$ 1,359,003

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

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

Year ended June 30	Amount
2019	$ 611,258
2020	946,525
2021	367,110
2022	(67,240)

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

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):	7.5%
Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5% - 12.3%, including wage inflation of 3.5%
Cost-of-Living Adjustments:	3% annual non-compounded for MIP members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males, and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017 is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.

- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [5.4744 for non-university employers, 1.4186 for university employers].

- Recognition period for assets in years is 5.000.

- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

Long-Term Expected Rate of Return on Investments

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

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.6%
Private Equity Pools	18.0%	8.7%
International Equity Pools	16.0%	7.2%
Fixed Income Pools	10.5%	(0.1%)
Real Estate & Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.0%
Short-term Investment Pools	2.0%	(0.9%)
Total	**100.0%**	

* 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 plan investment, net of pension plan investment expense, was 13.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changed amounts actually invested.

Discount Rate

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

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

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

	1% Decrease (Non-Hybrid/Hybrid) 6.5%/6.0%	Current Discount Rate Assumption (Non-Hybrid/Hybrid) 7.5%/7.0%	1% Increase (Non-Hybrid/Hybrid) 8.5%/8.0%
District's proportionate share of the net pension liability	$ 29,150,784	$ 22,377,764	$ 16,675,313

Michigan Public School Employees Retirement System (MPSERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System September 30, 2017 Comprehensive Annual Financial Report, available here: (www.michigan.gov/orsschools).

Payables to the Michigan Public School Employee Retirement System (MPSERS)

Payables to the pension plan totaling $276,941 at June 30, 2018 arise from the normal legally required contributions based on the accrued salaries payable at year-end, expected to be liquidated with expendable available financial resources.

Note H – Other Postemployment Benefits

Plan Description

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

The System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

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

Plan Participants

At September 30, 2017, the System's membership consisted of the following:

Eligible participants	211,051
Participants receiving benefits:	
Health	152,154
Dental/Vision	165,532
Vested plan members:	
Active	190,537
Non-active	2,349

Benefits Provided

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

Retiree Healthcare Reform of 2012

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

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

Contributions and Funded Status

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

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

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

OPEB Contribution Rates:

Benefit Structure	Member	District
Premium Subsidy	3.0%	5.91%
Personal Healthcare Fund (PHF)	0.0 %	5.69%

Required contributions to the OPEB plan from the District were $541,316 for the year ended September 30, 2017.

Net OPEB Liability (in thousands)

Total OPEB Liability	$ 14,175,547
Plan Fiduciary Net Position	5,177,775
Net OPEB Liability	$ 8,997,772
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	36.53%
Net OPEB Liability as a Percentage of Covered Employee Payroll	106.44%
Total Covered Payroll	$ 8,452,983

At June 30, 2018, the District reported a liability of $7,652,152 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was .08641157%.

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

For the year ended June 30, 2018, the District recognized OPEB expense of $512,288. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ —	$ 81,473
Net difference between projected and actual earnings on OPEB plan investment earnings	—	177,226
Changes in proportion and differences between District contributions and proportionate share of contributions	2,032	—
District contributions subsequent to the measurement date*	505,532	—
Total	$ 507,564	$ 258,699

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

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

Year ended June 30	Amount
2019	$ (62,061)
2020	(62,061)
2021	(62,061)
2022	(8,423)

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

Valuation Date:	September 30, 2016
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	7.5%
Projected Salary Increases:	3.5% - 12.3%, including wage inflation of 3.5%
Healthcare Cost Trend Rate:	7.5% Year 1 graded 3.5% Year 12
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males, and 70% of the table rates were used for females.

Other Assumptions:

Opt Out Assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
Survivor Coverage	80% of male retirees and 67% of female retires 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 assume to elect coverage for 1 or more dependents

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.

- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [5.4744 for non-university employers or 1.4186 for university employers]

- Recognition period for assets in years is 5.0000

- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on 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 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. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2017, are summarized in the following table:

Investment Category	**Target Allocation**	**Long-term Expected Real Rate of Return***
Domestic Equity Pools	28.0%	5.6%
Private Equity Pools	18.0%	8.7%
International Equity Pools	16.0%	7.2%
Fixed Income Pools	10.5%	(0.1%)
Real Estate & Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.0%
Short-term Investment Pools	2.0%	(0.9%)
Total	**100.0%**	

*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 OPEB plan investment, net of OPEB plan investment expense, was 11.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

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

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

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

	1% Decrease 6.5%	Current Discount Rate Assumption 7.5%	1% Increase 8.5%
District's proportionate share of the net OPEB liability	$ 8,962,881	$ 7,652,152	$ 6,539,753

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

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

	1% Decrease 6.5%	Current Healthcare Cost Trend Rate 7.5%	1% Increase 8.5%
District's proportionate share of the net OPEB liability	$ 6,480,344	$ 7,652,152	$ 8,982,658

OPEB Plan Fiduciary Net Position

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

Payables to the OPEB Plan

Payables to the OPEB plan totaling $52,535 at June 30, 2018 arise from the normal legally required contributions based on the accrued salaries payable at year-end, expected to be liquidated with expendable available financial resources.

Note I – Risk Management and Benefits

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

There were no significant reductions in insurance coverage in fiscal 2017-18, and as of year ended June 30, 2018, there were no material pending claims against the District.

Note J – Stewardship, Compliance and Accountability

The District has an unrestricted net position deficit of $25,085,820 and a total net position deficit of $13,991,528, as of June 30, 2018. These deficit net positions result primarily from the net pension liability of $18,515,065 and the net OPEB liability of $7,403,287 (net of deferred outflows and inflows of resources related to the pension plan).

Note K – New Accounting Pronouncement Adopted

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was adopted by the District during the fiscal year ended June 30, 2018. This statement replaces the requirements of GASB Statement No. 45 and the primary objective of this Statement is to improve accounting and reporting by state and local governments for postemployment benefits other than pensions (OPEB). Changes/additions to deferred outflows of resources, deferred inflows of resources and net OPEB liability required by the statement decreased beginning net position by $7,313,306 at July 1, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

SHELBY PUBLIC SCHOOLS
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2017

	Year Ended June 30, 2015	Year Ended June 30, 2016	Year Ended June 30, 2017	Year Ended June 30, 2018
District's proportion of the net pension liability	0.08707000%	0.08469000%	0.08179000%	0.08635312%
District's proportionate share of the net pension liability	$ 21,723,028	$ 20,686,996	$ 18,016,435	$ 22,377,764
District's covered employee payroll	$ 7,175,723	$ 7,290,577	$ 7,075,872	$ 7,149,908
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	302.73%	283.75%	254.62%	312.98%
Plan fiduciary net position as a percentage of the total pension liability	63.27%	63.17%	66.20%	63.96%

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

Note: GASB Statement No 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

SHELBY PUBLIC SCHOOLS
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net OPEB Liability
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2017

	Year Ended June 30, 2018
District's proportion of the net pension liability	0.08641157%
District's proportionate share of the net pension liability	$ 7,652,152
District's covered employee payroll	$ 7,149,908
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	107.02%
Plan fiduciary net position as a percentage of the total pension liability	36.53%

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

Note: GASB Statement No 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

SHELBY PUBLIC SCHOOLS
Required Supplementary Information
Schedule of District's Pension Contributions
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2018

	Year Ended June 30, 2016	Year Ended June 30, 2017	Year Ended June 30, 2018	Year Ended June 30, 2018
Contractually required contribution	$ 1,806,896	$ 1,663,984	$ 1,855,182	$ 2,164,556
Contributions in relation to the contractually required contribution	1,806,896	1,809,378	2,464,754	2,164,556
Contribution deficiency (excess)	$ -	$ (145,394)	$ (609,572)	$ -
District's covered-employee payroll	$ 7,075,872	$ 7,290,577	$ 7,175,723	$ 7,549,298
Contributions as a percentage of covered employee payroll	25.54%	24.82%	34.35%	28.67%

Note: GASB Statement No 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

SHELBY PUBLIC SCHOOLS
Required Supplementary Information
Schedule of District's OPEB District Contributions
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2018

	Year Ended June 30, 2016
Contractually required contribution	$ 541,316
Contributions in relation to the contractually required contribution	541,316
Contribution deficiency (excess)	$ -
District's covered-employee payroll	$ 7,549,298
Contributions as a percentage of covered employee payroll	7.17%

Note: GASB Statement No 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Note A – Net Pension Liability and Contributions

Changes of benefit terms: There were no changes of benefit terms in 2017-18.

Changes of assumptions: There were no changes of benefit assumptions in 2017-18.

Note B – Net OPEB Liability and Contributions

Changes of benefit terms: There were no changes of benefit terms in 2017-18.

Changes of assumptions: There were no changes of benefit assumptions in 2017-18.

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

SHELBY PUBLIC SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2018

	Special Revenue	Debt Service	
	Food Service	2009	2013
Assets			
Cash	$ 200	$ -	$ -
Cash equivalents, deposits and investments	55,170	346,958	-
Accounts receivable	315	-	-
Due from other governmental units	42,321	-	-
Inventory	7,497	-	-
Prepaids	25	-	-
Total Assets	$ 105,528	$ 346,958	$ -
Liabilities and Fund Balances			
Liabilities			
Due to other funds	$ 37,504	$ -	$ -
Due to other governmental units	1,378	-	-
Salaries payable	3,913	-	-
Payroll related accrued liabilities	119	-	-
Total Liabilities	42,914	-	-
Fund Balances			
Nonspendable	7,522	-	-
Restricted	55,092	346,958	-
Total Fund Balances	62,614	346,958	-
Total Liabilities and Fund Balances	$ 105,528	$ 346,958	$ -

Capital Projects Building and Site	Total
$ -	$ 200
135,736	537,864
-	315
-	42,321
-	7,497
-	25
$ 135,736	$ 588,222
$ -	$ 37,504
-	1,378
-	3,913
-	119
-	42,914
-	7,522
135,736	537,786
135,736	545,308
$ 135,736	$ 588,222

SHELBY PUBLIC SCHOOLS
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2018

	Special Revenue	Debt Service	
Revenues	Food Service	2009	2013
Local sources:			
Property taxes	$ -	$ 740,498	$ 29,245
Interest on deposits and investments	39	617	85
Food sales	38,536	-	-
Other local sources	7,655	-	-
Total local sources	46,230	741,115	29,330
State sources	52,116	16,820	5
Federal sources	1,155,124	-	-
Total Revenues	1,253,470	757,935	29,335
Expenditures			
Food service	1,222,456	-	-
Debt service:			
Principal repayment	-	725,000	115,000
Interest and fiscal charges	-	107,609	2,360
Total Expenditures	1,222,456	832,609	117,360
Excess (Deficiency) of Revenues Over Expenditures	31,014	(74,674)	(88,025)
Other Financing Sources (Uses)			
Transfers in	10,170	5,995	-
Transfers out	-	-	(5,995)
Total Other Financing Sources (Uses)	10,170	5,995	(5,995)
Net Change in Fund Balances	41,184	(68,679)	(94,020)
Fund Balances, Beginning of Year	21,430	415,637	94,020
Fund Balances, End of Year	$ 62,614	$ 346,958	$ -

Capital Projects Building and Site	Total
$ -	$ 769,743
-	741
-	38,536
-	7,655
-	816,675
-	68,941
-	1,155,124
-	2,040,740
-	1,222,456
-	840,000
-	109,969
-	2,172,425
-	(131,685)
-	16,165
(340,144)	(346,139)
(340,144)	(329,974)
(340,144)	(461,659)
475,880	1,006,967
$ 135,736	$ 545,308

SHELBY PUBLIC SCHOOLS
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2018

	Budget	Actual	Variance
Revenues			
Local sources:			
Interest on deposits and investments	$ 30	$ 39	$ 9
Food sales	47,352	38,536	(8,816)
Other local sources	7,650	7,655	5
Total local sources	55,032	46,230	(8,802)
State sources	63,912	52,116	(11,796)
Federal sources	1,127,375	1,155,124	27,749
Total Revenues	1,246,319	1,253,470	(1,651)
Expenditures			
Food service	1,244,930	1,222,456	22,474
Excess of Revenues Over Expenditures	1,389	31,014	29,625
Other Financing Uses			
Transfers in	10,170	10,170	-
Net Change in Fund Balances	11,559	41,184	29,625
Fund Balances, Beginning of Year	21,430	21,430	-
Fund Balances, End of Year	$ 32,989	$ 62,614	$ 29,625

AGENCY FUND

Student Activities – to account for the collection and disbursements of monies used by the school activity clubs and groups.

SHELBY PUBLIC SCHOOLS
Student Activities Agency Fund
Statement of Changes in Assets and Liabilities
For the year ended June 30, 2018

	Balances July 1, 2017	Additions	Deductions	Balances June 30, 2018
Assets				
Cash equivalents, deposits and investments	$ 197,150	$ 251,855	$ 239,443	$ 209,562
Liabilities				
Due to student groups	$ 197,150	$ 251,855	$ 239,443	$ 209,562

SHELBY PUBLIC SCHOOLS
Oceana County, Michigan

Additional Reports Required by
the Uniform Guidance

For the year ended June 30, 2018

Hungerford Nichols CPAs + Advisors
Where good ideas add up

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SHELBY PUBLIC SCHOOLS
For the year ended June 30, 2018

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

October 19, 2018

The Board of Education
Shelby Public Schools
Oceana County, 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, the major fund, and the aggregate remaining fund information of Shelby Public Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Shelby Public Schools' basic financial statements, and have issued our report thereon dated October 19, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Hungerford Nichols

Certified Public Accountants
Grand Rapids, Michigan

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

October 19, 2018

The Board of Education
Shelby Public Schools
Oceana County, Michigan

Report on Compliance for Each Major Federal Program

We have audited Shelby Public Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Shelby Public Schools' major federal programs for the year ended June 30, 2018. Shelby Public Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Shelby Public Schools' compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Shelby Public Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise of Shelby Public Schools' basic financial statements. We issued our report thereon dated October 19, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Hungerford Nichols

Certified Public Accountants
Grand Rapids, Michigan

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SHELBY PUBLIC SCHOOLS
For the year ended June 30, 2018

Federal Grantor Pass Through Grantor Program Title Grant Number	**Federal CFDA Number**	**Approved Grant Award Amount**
U. S. Department of Education		
Passed through Michigan Department of Education (MDE):		
Title I, Part A:	84.010	
171530 1617		$ 371,189
181530 1718		428,321
Total Title I, Part A		799,510
Title I, Part C, Migrant Education:	84.011	
1718901617		159,122
1818901718		156,750
1718301617		99,480
1818301718		85,598
Total Title I, Part C		500,950
Title V - Rural Education:	84.358A	
180660 1718		23,826
Total Title V		23,826
Title VI, Part B, Subpart 2 - Rural and Low-Income:	84.358B	
170660 1617		31,692
Total Title VI		31,692
Title IIA, Improving Teacher Quality:	84.367	
170520 1617		109,106
180520 1718		93,038
Total Title IIA		202,144
Title III, Limited English:	84.365A	
170580 1617		38,258
180580 1718		32,484
Total Title III		70,742

See Notes to Schedule of Expenditures of Federal Awards.

Accrued (Deferred) Revenue At July 1, 2017	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue At June 30, 2018
$ 96,981	$ 336,068	$ -	$ 96,981	$ -
-	-	347,460	363,552	(16,092)
96,981	336,068	347,460	460,533	(16,092)
53,374	130,824	-	53,374	-
-	-	100,063	94,331	5,732
17,463	17,463	71,757	89,220	-
-	-	18,258	-	18,258
70,837	148,287	190,078	236,925	23,990
-	-	23,826	23,324	502
-	-	23,826	23,324	502
1,239	31,692	-	1,239	-
1,239	31,692	-	1,239	-
36,068	88,705	-	36,068	-
-	-	75,060	37,891	37,169
36,068	88,705	75,060	73,959	37,169
14,282	37,748	491	14,773	-
-	-	30,901	20,342	10,559
14,282	37,748	31,392	35,115	10,559

SHELBY PUBLIC SCHOOLS
For the year ended June 30, 2018

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
Title IV, Student Support and Academic Enrichment:	84.424	
180750 1718		$ 10,000
21st Century Community Learning Centers:	84.287	
172110 I14012		540,000
182110 I14012		540,000
Total 21st Century Community Learning Centers		1,080,000
Total Passed Through MDE		2,718,864
Total U.S. Department of Education		2,718,864
U.S. Department of Agriculture		
Passed through Michigan Department of Education (MDE):		
Nutrition Cluster:		
Non-Cash Assistance (U.S.D.A. Commodities):	10.555	
Entitlement Commodities		108,662
Total Non-Cash Assistance		108,662
Cash Assistance:		
Lunch Program:	10.555	
181960		563,076
Breakfast Program:	10.553	
181970		304,084
Summer Food Servivce Program	10.559	
170900, 171900		41,371
180900, 181900		40,329
Total Summer School Food		81,700
Total Cash Assistance		948,860
Total Nutrition Cluster		1,057,522

See Notes to Schedule of Expenditures of Federal Awards.

Accrued (Deferred) Revenue At July 1, 2017	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue At June 30, 2018
$ -	$ -	$ 9,252	$ 9,076	$ 176
158,897	540,000	-	158,897	-
-	-	540,000	494,936	45,064
158,897	540,000	540,000	653,833	45,064
378,304	1,182,500	1,217,068	1,494,004	101,368
378,304	1,182,500	1,217,068	1,494,004	101,368
-	-	108,662	108,662	-
-	-	108,662	108,662	-
-	-	563,076	544,975	18,101
-	-	304,084	294,488	9,596
4,382		-	4,382	-
-	-	40,329	34,066	6,263
4,382	-	40,329	38,448	6,263
4,382	-	907,489	877,911	33,960
4,382	-	1,016,151	986,573	33,960

SHELBY PUBLIC SCHOOLS
For the year ended June 30, 2018

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
Child and Adult Care Food Program:	10.558	
171920, 172010		$ 127,278
181920, 182010		138,973
Total Child and Adult Care Food Program		266,251
Total U.S. Department of Agriculture		1,323,773
U.S. Department of Health and Human Services		
Passed through Muskegon Area Intermediate School District		
Head Start:	93.600	
O5CH010377-02-01		365,286
O5CH010377-03-01		368,939
Total U.S. Department of Health and Human Services		734,225
Total Federal Financial Assistance		$ 4,776,862

See Notes to Schedule of Expenditures of Federal Awards.

Accrued (Deferred) Revenue At July 1, 2017	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue At June 30, 2018
$ 1,702	$ -	$ -	$ 1,702	$ -
-	-	138,973	137,312	1,661
1,702	-	138,973	139,014	1,661
6,084	-	1,155,124	1,125,587	35,621
99,840	188,944	148,847	248,687	-
-	-	204,746	30,105	174,641
99,840	188,944	353,593	278,792	174,641
$ 484,228	$ 1,371,444	$ 2,725,785	$ 2,898,383	$ 311,630

SHELBY PUBLIC SCHOOLS
For the year ended June 30, 2018

Note A – Basis of Presentation

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

Note B – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note C – Indirect Cost Rate

Shelby Public Schools has elected not to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

Note D – Grant Section Auditor Report

Management has utilized the MDE Cash Management System (CMS) Grant Auditor Report (GAR) in preparing the Schedule of Expenditures of Federal Awards.

Note E – Non-Cash Assistance

The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with the SEFA for USDA donated food commodities.

SHELBY PUBLIC SCHOOLS
For the year ended June 30, 2018

Note F – Federal Income Reconciliation

	Grant Expenditures Per Schedule of Federal Financial Assistance	Federal Revenue Per Financial Statements	Difference
Title IA	$ 347,460	$ 347,460	$ -
Title IC	190,078	190,078	-
Title V	23,826	23,826	-
Title IIA	75,060	75,060	-
Title III	31,392	31,392	-
Title IV	9,252	9,252	-
21st Century	540,000	540,000	-
Nutrition Cluster	1,155,124	1,155,124	-
Head Start	353,593	353,593	-
	$ 2,725,785	$ 2,725,785	$ -

SHELBY PUBLIC SCHOOLS
For the year ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified?		Yes	X	None reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified?		Yes	X	None reported

Type of auditor's report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?		Yes	X	No

Identification of major programs audited:

Child Nutrition Cluster

10.555	Entitlement Commodities
10.555	National School Lunch Program
10.553	School Breakfast Program
10.559	Summer Food Service Program

SHELBY PUBLIC SCHOOLS
For the year ended June 30, 2018

Section I - Summary of Auditor's Results (Continued)

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

Auditee qualified as a low-risk auditee? X Yes ____ No

Section II - Financial Statements Audit Findings

There were no findings that are required to be reported under *Government Auditing Standards.*

Section III – Major Federal Award Programs Findings and Questioned Costs

There were no findings or questioned costs.

Hungerford Nichols CPAs + Advisors
Where good ideas add up™

October 19, 2018

The Board of Education
Shelby Public Schools
Ludington, Michigan

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Shelby Public Schools for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and Government Auditing Standards and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 22, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Shelby Public Schools are described in the notes to the financial statements. As described in the notes to the financial statements, we noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Government-Wide financial statements were:

Management's estimate of the liability of the payout for the employee compensated absences upon their retirement is based on expected payout:

- We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the lives of capital assets

- We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain amounts included in capital assets have been estimated by appraisers based on historical information for assets placed in service prior to implementation of GASB Statement No. 34.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole. There were no significant adjustments derived from the audit process.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 19, 2018.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis and Schedules related to the Proportionate Share and Contributions of the District's Net Pension and Net OPEB Liabilities, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Other Comments

The General Fund balance of the District decreased by $164,281 to $2,092,285 at June 30, 2018. This balance represents 14.5 percent of the District's 2018-19 expenditure budget, down from 14.7 percent at June 30, 2017. Maintaining a fund balance of at least 10 - 15 percent of the ensuing year's expenditure budget is advisable for Shelby Public Schools. This gives the District more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

Restriction on Use

This communication is intended solely for the information and use of the Shelby Public Schools Board of Education and management and is not intended to be and should not be used by anyone other than these specified parties. We have furnished a copy of this letter to the Michigan Departments of Education and Treasury as an enclosure with the audit report as required by the State of Michigan.

Hungerford Nichols

Certified Public Accountants