

Linden  
Community  
Schools



Year Ended  
June 30, 2017

Financial  
Statements and  
Single Audit Act  
Compliance

# LINDEN COMMUNITY SCHOOLS

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## INDEPENDENT AUDITORS' REPORT

October 16, 2017

Board of Education  
Linden Community Schools  
Linden, Michigan

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Linden Community Schools* (the "District"), as of and for the year ended June 30, 2017, 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.

#### *Independent Auditors' Responsibility*

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2017, and the respective changes in financial position therefore and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Required Supplementary Information*

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

### *Other Information*

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

The combining 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rehmann Lobson LLC". The signature is written in a cursive, flowing style.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

# LINDEN COMMUNITY SCHOOLS

## Management's Discussion and Analysis

As management of Linden Community 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, 2017.

### Financial Highlights

- The district's total net position increased by \$947,402 from the prior year.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,894,879, an increase of \$287,709 in comparison with the prior year. Approximately 59.6% or \$2,320,410 is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,320,410 or 8.9% of total general fund expenditures.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**District-Wide Financial Statements.** The *district-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the District-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, supporting services, food service and community service. The District has no business-type activities as of and for the year ended June 30, 2017.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the District-wide financial statements. However, unlike the District-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near term financing requirements.

# LINDEN COMMUNITY SCHOOLS

## Management's Discussion and Analysis

Because the focus of governmental funds is narrower than that of the District-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the District wide financial statements. By doing so, readers may better understand the long term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains individual governmental funds and fiduciary funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and sinking fund capital projects fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided for the general fund required to adopt a budget, the major fund, herein to demonstrate compliance with that budget.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the District-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management's discussion and analysis and the schedules for the MPSERS pension plan immediately following the notes to the financial statements. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the pension plan required supplementary information to the financial statements.

# LINDEN COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### District-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, the District reported a deficit net position of \$(16,857,576).

|                                  | Net Position           |                        |
|----------------------------------|------------------------|------------------------|
|                                  | 2017                   | 2016                   |
| <b>Assets</b>                    |                        |                        |
| Current and other assets         | \$ 8,839,353           | \$ 8,758,150           |
| Capital assets, net              | 33,583,950             | 34,130,956             |
| <b>Total assets</b>              | <u>42,423,303</u>      | <u>42,889,106</u>      |
| <br>                             |                        |                        |
| Deferred outflows of resources   | <u>7,225,197</u>       | <u>6,730,280</u>       |
| <br>                             |                        |                        |
| <b>Liabilities</b>               |                        |                        |
| Current and other liabilities    | 44,119,756             | 43,285,907             |
| Long-term debt                   | 22,262,878             | 24,011,115             |
| <b>Total liabilities</b>         | <u>66,382,634</u>      | <u>67,297,022</u>      |
| <br>                             |                        |                        |
| Deferred inflows of resources    | <u>123,442</u>         | <u>127,342</u>         |
| <br>                             |                        |                        |
| <b>Net position</b>              |                        |                        |
| Net investment in capital assets | 12,643,675             | 11,647,554             |
| Restricted                       | 1,409,429              | 1,032,154              |
| Unrestricted (deficit)           | <u>(30,910,680)</u>    | <u>(30,484,686)</u>    |
| <b>Total net position</b>        | <u>\$ (16,857,576)</u> | <u>\$ (17,804,978)</u> |

A portion of the District's net position reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is in a deficit position at June 30, 2017.

# LINDEN COMMUNITY SCHOOLS

## Management's Discussion and Analysis

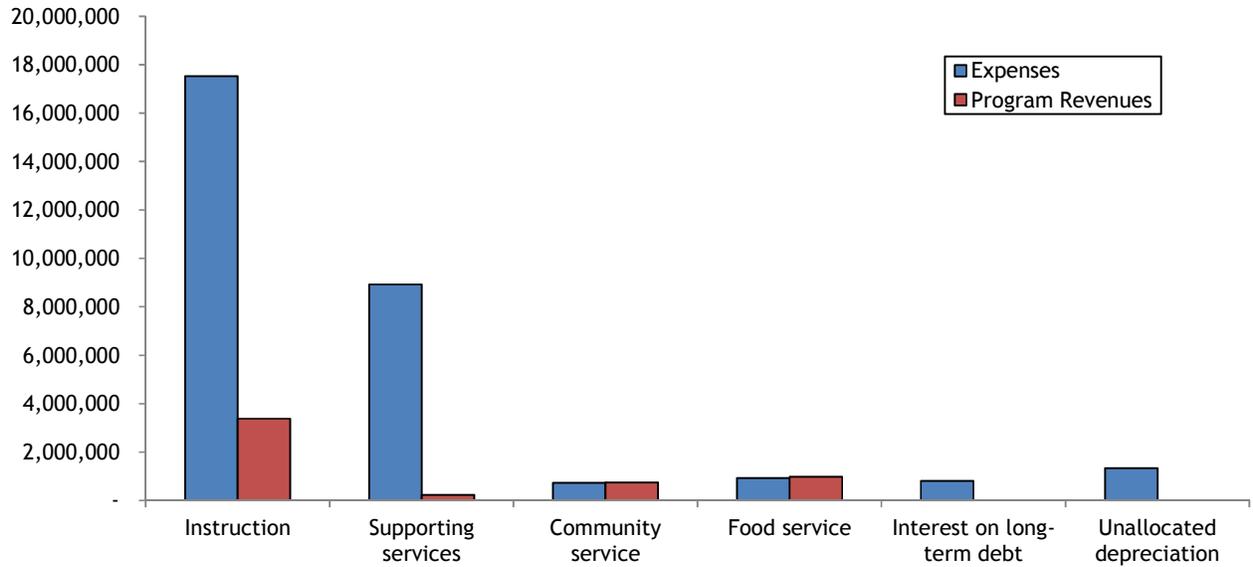
The District's net position increased by \$947,402 during the current fiscal year. This is compared to an increase of \$152,957 in the prior year. District-wide revenue exceeded expenses for the seventh year in a row. Revenue increased over the prior year mainly due to additional state retirement offsets. Operating expenses decreased in comparison to the prior year due to staff reductions.

|  | Change in Net Position        |                               |
|--|-------------------------------|-------------------------------|
|  | 2017                          | 2016                          |
| Revenue  |                               |                               |
| Program revenues:  |                               |                               |
| Charges for services   | \$ 1,553,382                  | \$ 1,372,671                  |
| Operating grants and contributions                           | 3,798,943                     | 3,774,084                     |
| General revenues:  |                               |                               |
| Property taxes   | 5,187,776                     | 4,978,571                     |
| Unrestricted state school aid                                | 20,450,154                    | 20,165,628                    |
| Grants and contributions not restricted to specific programs | 200,963                       | 243,807                       |
| Other  | 18,752                        | 8,432                         |
| Total revenues   | <u>31,209,970</u>             | <u>30,543,193</u>             |
| Expenses   |                               |                               |
| Instruction  | 17,523,902                    | 17,697,186                    |
| Supporting services  | 8,921,000                     | 8,961,698                     |
| Community service  | 735,697                       | 768,725                       |
| Food service   | 933,615                       | 929,357                       |
| Interest on long-term debt                                   | 809,902                       | 702,874                       |
| Unallocated depreciation                                     | 1,338,452                     | 1,330,396                     |
| Total expenses   | <u>30,262,568</u>             | <u>30,390,236</u>             |
| Change in net position                                       | 947,402                       | 152,957                       |
| Net position, beginning of year                              | <u>(17,804,978)</u>           | <u>(17,957,935)</u>           |
| Net position, end of year                                    | <u><u>\$ (16,857,576)</u></u> | <u><u>\$ (17,804,978)</u></u> |

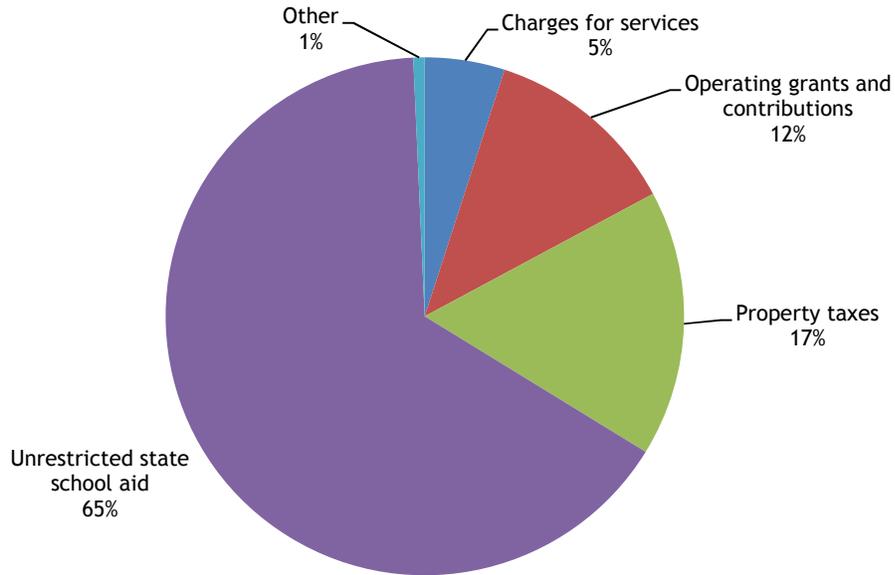
# LINDEN COMMUNITY SCHOOLS

## Management's Discussion and Analysis

Expenses and Program Revenues - Governmental Activities

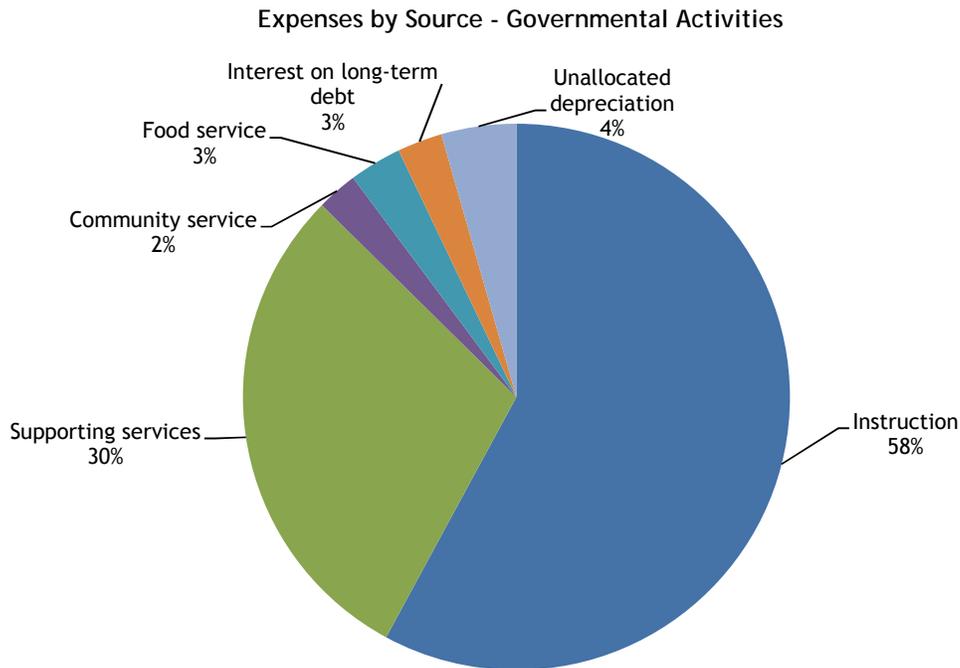


Revenues by Source - Governmental Activities



# LINDEN COMMUNITY SCHOOLS

## Management's Discussion and Analysis



### Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,894,879 an increase of \$287,709 in comparison with the prior year. Approximately 59.6% of this total amount (\$2,320,410) constitutes unassigned fund balance, which is available for spending at the government's discretion. Another portion of fund balance is restricted to indicate that it is not available for new spending because it is constrained to specific purposes by the providers or by legal means. The final portion of fund balance is nonspendable, which means the underlying assets are not in a spendable form (e.g. inventory), or are required to remain intact (e.g. corpus of a scholarship bequest) and are not available for current expenditure.

The general fund is the chief operating fund of the District, and represents the District's unassigned fund balance. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,320,410. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 8.9% of general fund expenditures.

# LINDEN COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### General Fund Budgetary Highlights

Differences between the original and final amended budgets were fairly minor. As additional information became available throughout the year, subsequent budget amendments adjusted revenue and expenditures as necessary. Overall, revenue increased by a little over 4.0%, due to state retirement funding, and expenditures decreased by approximately 3.0% due to decreased staffing.

Differences between the final amended budget and actual results were relatively small. Both total revenues and total expenditures were off by 2% or less, with revenues coming in under budget by 0.7% and expenditures coming in under budget by 1.7%.

|  | Original Budget     | Final Budget        | Actual              |
|--|---------------------|---------------------|---------------------|
| <b>Revenue</b>                         |                     |                     |                     |
| Local sources                          | \$ 2,126,210        | \$ 2,153,778        | \$ 2,199,333        |
| State sources                          | 21,476,425          | 22,206,718          | 22,079,427          |
| Federal sources                        | 1,133,778           | 1,309,247           | 1,132,617           |
| Transfers from other districts         | 520,000             | 635,000             | 702,997             |
| <b>Total revenue</b>                   | <b>25,256,413</b>   | <b>26,304,743</b>   | <b>26,114,374</b>   |
| <b>Expenditures</b>                    |                     |                     |                     |
| Instruction                            | 16,413,981          | 17,325,484          | 17,194,230          |
| Supporting services                    | 9,308,195           | 9,168,819           | 8,846,136           |
| Debt service                           | 29,050              | 29,050              | 27,057              |
| <b>Total expenditures</b>              | <b>25,751,226</b>   | <b>26,523,353</b>   | <b>26,067,423</b>   |
| <b>Net change in fund balance</b>      | <b>(494,813)</b>    | <b>(218,610)</b>    | <b>46,951</b>       |
| <b>Fund balance, beginning of year</b> | <b>2,299,972</b>    | <b>2,299,972</b>    | <b>2,299,972</b>    |
| <b>Fund balance, end of year</b>       | <b>\$ 1,805,159</b> | <b>\$ 2,081,362</b> | <b>\$ 2,346,923</b> |

During the year, there was a \$1,048,330 increase in budgeted revenue and a \$772,127 increase in appropriations between the original and final amended budget. Following are the main components of these changes:

- Unanticipated additional revenue became available through State categorical funding; primarily Retirement Stabilization funds.
- Recall of staff members to needed positions after initial layoffs.
- Consortium program costs were recalculated to reflect actual students participating in the programs resulting in significant increases.

### Capital Asset and Debt Administration

**Capital Assets.** The District's investment in capital assets, which includes construction, land improvements, machinery and equipment, vehicles, and construction in progress for its governmental activities as of June 30, 2017, amounted to \$33,583,950 (net of accumulated depreciation), which is a decrease from the prior year's investment of \$34,130,956. The decrease in the District's investment in capital assets was due to depreciation on existing assets outpacing the current year's additions. Additions have slowed as the resources in the Sinking Fund have tapered off due to property value declines over time.

# LINDEN COMMUNITY SCHOOLS

## Management's Discussion and Analysis

Major capital asset events during the current fiscal year included the following:

- Construction in progress for HVAC improvements at Hyatt Elementary and Linden High School amounted to \$662,886. These projects will be completed during the 2017-18 fiscal year.
- Roughly \$20,000 was spent on a parking lot upgrade at Central Elementary.
- The District spent roughly \$83,000 replacing a portion of the roof at Argentine Elementary.

|                                  | Capital Assets<br>(Net of Depreciation) |                      |
|----------------------------------|---|----------------------|
|                                  | 2017                                    | 2016                 |
| Construction                     | \$ 29,381,964                           | \$ 30,251,885        |
| Land Improvements                | 3,310,943                               | 3,593,285            |
| Machinery and equipment          | 161,313                                 | 215,962              |
| Buses and vehicles               | 4,142                                   | 7,122                |
| Construction in progress         | 725,588                                 | 62,702               |
| <b>Total capital assets, net</b> | <b>\$ 33,583,950</b>                    | <b>\$ 34,130,956</b> |

Additional information on the District’s capital assets can be found in Note 6 of this report.

Long-Term Debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$20,185,000. The District's total debt decreased by \$1,748,237.

Additional information on the District’s long-term debt can be found in Note 8 of this report.

### Economic Factors and Next Year’s Budget and Rates

The following factors will affect the District in the future and were considered in preparing the District’s budget for the 2017-18 fiscal year:

- For 2017-18 the minimum foundation allowance will be \$7,631, which will be \$120 more than the 2016-17 fiscal year.
- During 2011-12 the State of Michigan enacted PA 152, which caps the amount the District can legally spend on employee health insurance. Any costs exceeding the state imposed caps must be borne by the employee receiving the benefit. The cap was raised by the medical CPI rate (3.3%) for the 2017-18 fiscal year, in accordance with the law, which increases the District's costs.
- Retirement reform has been enacted to cap the contribution rate at approximately 25.78%; however, the difference between this cap and the actuarial rate has been shifted to the School Aid Fund putting pressure on state funding sources.
- Collective bargaining resulted in wage increases approximating 1.0%, which will increase anticipated salary and benefit expenditures.
- The District’s utilities (natural gas, electric, diesel fuel) have been volatile over the last few years. These increases/decreases are based on market and weather conditions and always place a certain level of uncertainty on the District’s budget projections.
- Based on increasing special education enrollment, the District added two (2) teaching positions for the 2017-18 school year.
- Local housing data, state economic data, local birth rates and various factors led the District to project a loss of enrollment of approximately 60 students for the 2016-17 budget bringing the projected blended count to 2,777. State-wide pupil enrollment has been declining steadily since 2003.

## LINDEN COMMUNITY SCHOOLS

### Management's Discussion and Analysis

- The state's economy continues to struggle, but with the auto industry making resurgence, state revenues have exceeded anticipated amounts. Despite large surpluses in the State Aid Fund, the State of Michigan has chosen to use a significant portion of these funds for higher education instead of funding local school districts to a higher degree. Continuing reports seem to indicate that increased funding in the future is uncertain.

#### Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant Superintendent, 7205 West Silver Lake Rd, Linden, MI 48451.

## BASIC FINANCIAL STATEMENTS

# LINDEN COMMUNITY SCHOOLS

## Statement of Net Position

June 30, 2017

|   | Governmental<br>Activities    |
|---|-------------------------------|
| <b>Assets</b>                               |                               |
| Cash and cash equivalents                   | \$ 3,993,303                  |
| Receivables                                 | 4,812,885                     |
| Prepaid items and other assets              | 33,165                        |
| Capital assets not being depreciated        | 725,588                       |
| Capital assets being depreciated, net       | <u>32,858,362</u>             |
| <b>Total assets</b>                         | <u>42,423,303</u>             |
| <b>Deferred outflows of resources</b>       |                               |
| Loss on advance bond refundings, net        | 988,023                       |
| Deferred pension amounts                    | <u>6,237,174</u>              |
| <b>Total deferred outflows of resources</b> | <u>7,225,197</u>              |
| <b>Liabilities</b>                          |                               |
| Accounts payable and accrued liabilities    | 2,945,074                     |
| State aid note payable                      | 1,994,852                     |
| Unearned revenue                            | 143,075                       |
| Long-term liabilities:                      |                               |
| Due within one year                         | 1,784,371                     |
| Due in more than one year                   | 20,478,507                    |
| Net pension liability                       | <u>39,036,755</u>             |
| <b>Total liabilities</b>                    | <u>66,382,634</u>             |
| <b>Deferred inflows of resources</b>        |                               |
| Deferred pension amounts                    | <u>123,442</u>                |
| <b>Net position</b>                         |                               |
| Net investment in capital assets            | 12,643,675                    |
| Restricted for food service                 | 221,154                       |
| Restricted for community service            | 135,009                       |
| Restricted for debt service                 | 267,946                       |
| Restricted for capital projects             | 785,320                       |
| Unrestricted (deficit)                      | <u>(30,910,680)</u>           |
| <b>Total net position (deficit)</b>         | <u><u>\$ (16,857,576)</u></u> |

The accompanying notes are an integral part of these financial statements.

# LINDEN COMMUNITY SCHOOLS

## Statement of Activities

For the Year Ended June 30, 2017

| Functions / Programs  | Expenses             | Program Revenues        |  | Net<br>(Expense)<br>Revenue |
|---|----------------------|-------------------------|--|-----------------------------|
|   |                      | Charges<br>for Services | Operating<br>Grants and<br>Contributions |                             |
| Governmental activities   |                      |                         |  |                             |
| Instruction   | \$ 17,523,902        | \$ 470,985              | \$ 2,910,732                             | \$ (14,142,185)             |
| Supporting services   | 8,921,000            | 74,349                  | 157,530                                  | (8,689,121)                 |
| Community service   | 735,697              | 478,702                 | 273,921                                  | 16,926                      |
| Food service  | 933,615              | 529,346                 | 456,760                                  | 52,491                      |
| Interest on long-term debt                                      | 809,902              | -                       | -  | (809,902)                   |
| Unallocated depreciation  | 1,338,452            | -                       | -  | (1,338,452)                 |
| <b>Total governmental activities</b>                            | <b>\$ 30,262,568</b> | <b>\$ 1,553,382</b>     | <b>\$ 3,798,943</b>                      | <b>(24,910,243)</b>         |
| General revenues:   |                      |                         |  |                             |
| Property taxes  |                      |                         |  | 5,187,776                   |
| Unrestricted state aid  |                      |                         |  | 20,450,154                  |
| Grants and contributions not<br>restricted to specific programs |                      |                         |  | 200,963                     |
| Unrestricted investment earnings                                |                      |                         |  | 18,752                      |
| <b>Total general revenues</b>                                   |                      |                         |  | <b>25,857,645</b>           |
| Change in net position  |                      |                         |  | 947,402                     |
| Net position (deficit), beginning of year                       |                      |                         |  | (17,804,978)                |
| Net position (deficit), end of year                             |                      |                         |  | <b>\$ (16,857,576)</b>      |

The accompanying notes are an integral part of these financial statements.

# LINDEN COMMUNITY SCHOOLS

## Balance Sheet

Governmental Funds

June 30, 2017

|  | General Fund        | Sinking Fund - Capital Projects Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------------------------|-----------------------------|--------------------------|
| <b>Assets</b>                              |                     |                                      |                             |                          |
| Cash and cash equivalents                  | \$ 2,283,411        | \$ 897,500                           | \$ 812,392                  | \$ 3,993,303             |
| Accounts receivable                        | 76,384              | -                                    | 2,247                       | 78,631                   |
| Due from other governments                 | 4,635,468           | -                                    | 98,786                      | 4,734,254                |
| Inventory                                  | -                   | -                                    | 6,652                       | 6,652                    |
| Prepaid items                              | 26,513              | -                                    | -                           | 26,513                   |
| <b>Total assets</b>                        | <b>\$ 7,021,776</b> | <b>\$ 897,500</b>                    | <b>\$ 920,077</b>           | <b>\$ 8,839,353</b>      |
| <b>Liabilities</b>                         |                     |                                      |                             |                          |
| Accounts payable                           | \$ 328,358          | \$ 213,596                           | \$ 562                      | \$ 542,516               |
| Salaries and benefits payable              | 2,242,295           | -                                    | 21,736                      | 2,264,031                |
| Unearned revenue                           | 109,348             | -                                    | 33,727                      | 143,075                  |
| Notes payable                              | 1,994,852           | -                                    | -                           | 1,994,852                |
| <b>Total liabilities</b>                   | <b>4,674,853</b>    | <b>213,596</b>                       | <b>56,025</b>               | <b>4,944,474</b>         |
| <b>Fund balances</b>                       |                     |                                      |                             |                          |
| Nonspendable:                              |                     |                                      |                             |                          |
| Inventory                                  | -                   | -                                    | 6,652                       | 6,652                    |
| Prepaid items                              | 26,513              | -                                    | -                           | 26,513                   |
| Restricted:                                |                     |                                      |                             |                          |
| Food service                               | -                   | -                                    | 214,502                     | 214,502                  |
| Community service                          | -                   | -                                    | 135,009                     | 135,009                  |
| Debt service                               | -                   | -                                    | 406,473                     | 406,473                  |
| Capital projects                           | -                   | 683,904                              | 101,416                     | 785,320                  |
| Unassigned                                 | 2,320,410           | -                                    | -                           | 2,320,410                |
| <b>Total fund balances</b>                 | <b>2,346,923</b>    | <b>683,904</b>                       | <b>864,052</b>              | <b>3,894,879</b>         |
| <b>Total liabilities and fund balances</b> | <b>\$ 7,021,776</b> | <b>\$ 897,500</b>                    | <b>\$ 920,077</b>           | <b>\$ 8,839,353</b>      |

The accompanying notes are an integral part of these financial statements.

# LINDEN COMMUNITY SCHOOLS

## Reconciliation

Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2017

|  |                               |
|--|-------------------------------|
| Fund balances - total governmental funds   | \$ 3,894,879                  |
| Amounts reported for <i>governmental activities</i> in the statement of net position are different because:  |                               |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.  |                               |
| Capital assets not being depreciated   | 725,588                       |
| Capital assets being depreciated, net  | 32,858,362                    |
| Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.   |                               |
| Bonds and loans payable  | (20,185,000)                  |
| Installment purchases payable  | (52,098)                      |
| Unamortized loss on refunding  | 988,023                       |
| Unamortized bond premiums  | (1,792,616)                   |
| Accrued interest on bonds payable  | (138,527)                     |
| Compensated absences   | (233,164)                     |
| Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds. |                               |
| Net pension liability  | (39,036,755)                  |
| Deferred outflows related to the net pension liability   | 6,237,174                     |
| Deferred inflows related to the net pension liability  | <u>(123,442)</u>              |
| Net position of governmental activities  | <u><u>\$ (16,857,576)</u></u> |

The accompanying notes are an integral part of these financial statements.

# LINDEN COMMUNITY SCHOOLS

## Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2017

|   | General Fund        | Sinking Fund - Capital Projects Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------------------------|-----------------------------|--------------------------|
| <b>Revenues</b>                         |                     |                                      |                             |                          |
| Local sources                           | \$ 2,199,333        | \$ 768,734                           | \$ 3,548,255                | \$ 6,516,322             |
| State sources                           | 22,079,427          | 11,000                               | 371,956                     | 22,462,383               |
| Federal sources                         | 1,132,617           | -                                    | 395,651                     | 1,528,268                |
| Transfers from other districts          | 702,997             | -                                    | -                           | 702,997                  |
| <b>Total revenues</b>                   | <b>26,114,374</b>   | <b>779,734</b>                       | <b>4,315,862</b>            | <b>31,209,970</b>        |
| <b>Expenditures</b>                     |                     |                                      |                             |                          |
| <b>Education:</b>                       |                     |                                      |                             |                          |
| Instruction                             | 17,194,230          | -                                    | -                           | 17,194,230               |
| Support services                        | 8,846,136           | -                                    | -                           | 8,846,136                |
| Food service activities                 | -                   | -                                    | 924,741                     | 924,741                  |
| Community services                      | -                   | -                                    | 614,243                     | 614,243                  |
| <b>Debt service:</b>                    |                     |                                      |                             |                          |
| Principal                               | 26,049              | -                                    | 1,545,000                   | 1,571,049                |
| Interest                                | 1,008               | 39                                   | 894,182                     | 895,229                  |
| Capital outlay                          | -                   | 847,468                              | 29,165                      | 876,633                  |
| <b>Total expenditures</b>               | <b>26,067,423</b>   | <b>847,507</b>                       | <b>4,007,331</b>            | <b>30,922,261</b>        |
| <b>Net change in fund balances</b>      | <b>46,951</b>       | <b>(67,773)</b>                      | <b>308,531</b>              | <b>287,709</b>           |
| <b>Fund balances, beginning of year</b> | <b>2,299,972</b>    | <b>751,677</b>                       | <b>555,521</b>              | <b>3,607,170</b>         |
| <b>Fund balances, end of year</b>       | <b>\$ 2,346,923</b> | <b>\$ 683,904</b>                    | <b>\$ 864,052</b>           | <b>\$ 3,894,879</b>      |

The accompanying notes are an integral part of these financial statements.

# LINDEN COMMUNITY SCHOOLS

## Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
For the Year Ended June 30, 2017

|  |                   |
|--|-------------------|
| Net change in fund balances - total governmental funds   | \$ 287,709        |
| Amounts reported for <i>governmental activities</i> in the statement of activities are different because:  |                   |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.  |                   |
| Capital assets purchased/constructed   | 791,445           |
| Depreciation expense   | (1,338,451)       |
| Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. |                   |
| Principal payments on long-term liabilities  | 1,571,049         |
| Amortization of loss on refunding and bond premiums  | 77,497            |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.   |                   |
| Change in net pension liability and related deferred amounts   | (453,542)         |
| Change in accrued interest payable on bonds and loans  | 7,829             |
| Change in the accrual for compensated absences   | 3,866             |
| Change in net position of governmental activities  | <u>\$ 947,402</u> |

The accompanying notes are an integral part of these financial statements.

# LINDEN COMMUNITY SCHOOLS

## Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - General Fund For the Year Ended June 30, 2017

|                                    | Original<br>Budget  | Final<br>Budget     | Actual              | Actual Over<br>(Under) Final<br>Budget |
|------------------------------------|---------------------|---------------------|---------------------|--|
| <b>Revenues</b>                    |                     |                     |                     |  |
| Local sources                      | \$ 2,126,210        | \$ 2,153,778        | \$ 2,199,333        | \$ 45,555                              |
| State sources                      | 21,476,425          | 22,206,718          | 22,079,427          | (127,291)                              |
| Federal sources                    | 1,133,778           | 1,309,247           | 1,132,617           | (176,630)                              |
| Transfers from other districts     | 520,000             | 635,000             | 702,997             | 67,997                                 |
| <b>Total revenues</b>              | <b>25,256,413</b>   | <b>26,304,743</b>   | <b>26,114,374</b>   | <b>(190,369)</b>                       |
| <b>Expenditures</b>                |                     |                     |                     |  |
| Instruction:                       |                     |                     |                     |  |
| Basic programs                     | 12,455,161          | 12,934,050          | 12,931,476          | (2,574)                                |
| Added needs                        | 3,303,820           | 3,522,434           | 3,394,117           | (128,317)                              |
| Transfers to other districts       | 655,000             | 869,000             | 868,637             | (363)                                  |
| Supporting services:               |                     |                     |                     |  |
| Pupil services                     | 1,706,957           | 1,664,407           | 1,638,204           | (26,203)                               |
| Instructional support              | 956,192             | 796,810             | 656,798             | (140,012)                              |
| General administration             | 370,630             | 343,623             | 332,515             | (11,108)                               |
| School administration              | 1,599,360           | 1,606,307           | 1,602,369           | (3,938)                                |
| Business services                  | 621,704             | 539,879             | 534,769             | (5,110)                                |
| Operations and maintenance         | 1,834,301           | 1,822,889           | 1,763,649           | (59,240)                               |
| Transportation                     | 1,306,648           | 1,316,285           | 1,261,892           | (54,393)                               |
| Technology                         | 366,753             | 454,506             | 444,822             | (9,684)                                |
| Athletic programs                  | 491,340             | 503,595             | 501,677             | (1,918)                                |
| Community services                 | 54,310              | 120,518             | 109,441             | (11,077)                               |
| Debt service:                      |                     |                     |                     |  |
| Principal                          | 26,050              | 26,050              | 26,049              | (1)                                    |
| Interest                           | 3,000               | 3,000               | 1,008               | (1,992)                                |
| <b>Total expenditures</b>          | <b>25,751,226</b>   | <b>26,523,353</b>   | <b>26,067,423</b>   | <b>(455,930)</b>                       |
| <b>Net changes in fund balance</b> | <b>(494,813)</b>    | <b>(218,610)</b>    | <b>46,951</b>       | <b>265,561</b>                         |
| Fund balances, beginning of year   | 2,299,972           | 2,299,972           | 2,299,972           | -                                      |
| <b>Fund balances, end of year</b>  | <b>\$ 1,805,159</b> | <b>\$ 2,081,362</b> | <b>\$ 2,346,923</b> | <b>\$ 265,561</b>                      |

The accompanying notes are an integral part of these financial statements.

# LINDEN COMMUNITY SCHOOLS

## Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2017

|                           | Private-Purpose Trust Fund |                          |
|---------------------------|----------------------------|--------------------------|
|                           | Scholarships               | Agency Funds             |
| <b>Assets</b>             |                            |                          |
| Cash and cash equivalents | \$ -                       | \$ 259,592               |
| Investments               | 286,585                    | -                        |
|                           | <hr/>                      | <hr/>                    |
| Total assets              | 286,585                    | <u><u>\$ 259,592</u></u> |
| <b>Liabilities</b>        |                            |                          |
| Due to student groups     | -                          | \$ 259,592               |
|                           | <hr/>                      | <hr/>                    |
| <b>Net position</b>       |                            |                          |
| Restricted                | <hr/> 286,585              |                          |
| Total net position        | <u><u>\$ 286,585</u></u>   |                          |

The accompanying notes are an integral part of these financial statements.

# LINDEN COMMUNITY SCHOOLS

## Statement of Changes in Fiduciary Net Position

Private-Purpose Trust Fund

For the Year Ended June 30, 2017

|  | Private-Purpose<br>Trust Fund |
|--|-------------------------------|
|  | Scholarships                  |
| <b>Additions</b>                                 |                               |
| Local revenue - interest / change in investments | \$ 6,632                      |
| <b>Deductions</b>                                |                               |
| Scholarships                                     | <u>22,500</u>                 |
| <b>Change in net position</b>                    | (15,868)                      |
| Net position, beginning of year                  | <u>302,453</u>                |
| Net position, end of year                        | <u><u>\$ 286,585</u></u>      |

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

# LINDEN COMMUNITY SCHOOLS

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### The Reporting Entity

Linden Community Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statements No. 14 and No. 39 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

#### *District-Wide and Fund Financial Statements*

The District-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2017.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statements.

#### *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

# LINDEN COMMUNITY SCHOOLS

## Notes to Financial Statements

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

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all the financial resources of the general government, except those accounted for and reported in another fund.

The *sinking fund capital projects fund* accounts for the acquisition of capital assets or construction of major capital projects, which are primarily funded by tax collections from a sinking fund millage.

Additionally, the District reports the following fund types:

*Special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

*Debt service funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

*Capital projects funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The *private-purpose trust fund* accounts for amounts entrusted to the District for scholarship awards and similar trust activities.

The *agency funds* account for assets held for student activity groups and organizations and are custodial in nature.

### Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at amortized cost.

### Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

### Other Assets

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

# LINDEN COMMUNITY SCHOOLS

## Notes to Financial Statements

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both District-wide and fund financial statements.

### Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the District wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition cost at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

| Assets                    | Years |
|---------------------------|-------|
| Land improvements         | 10-20 |
| Building and improvements | 25-50 |
| Busses and other vehicles | 8     |
| Machinery and equipment   | 5-20  |

### Deferred Outflows of Resources

In addition to assets, the statement of financial 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 reports a deferred charge on refunding in the District-wide statement of net position. A deferred charge on refunding results from the difference in the carry value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District also reports deferred outflows of resources related to the net pension liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date. More detailed information can be found in Note 12.

### Bonded Construction Costs

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 §1351a of the Michigan Revised School Code.

### Sinking Fund

The sinking fund capital project fund records capital project activities funded with a sinking fund millage. For this fund, the District has complied with the applicable provisions of §1212(1) of the Michigan Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

# LINDEN COMMUNITY SCHOOLS

## Notes to Financial Statements

### Compensated Absences

It is the District's policy to permit employees to accumulate various earned but unused vacation and sick pay benefits. These are accrued when incurred in the District-wide financial statements. A liability for sick pay amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. There are no contract provisions for the payment of unused vacation.

Benefits are accrued based on various contract stipulations and lengths of service. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments, and other employees who are expected to become eligible in the future to receive such payments upon termination, are included.

### Deferred Inflows of Resources

In addition to liabilities, the statement of financial 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 one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District's deferred inflows of resources are related to pension costs. More detailed information can be found in Note 12.

### Long-term Obligations

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

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 in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

### Fund Equity

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

# LINDEN COMMUNITY SCHOOLS

## Notes to Financial Statements

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

### 2. STATE OF MICHIGAN SCHOOL AID

The District reports State of Michigan school aid in the fiscal year in which the District is entitled to the revenue as provided by State of Michigan school aid appropriations acts. State funding represented 85% of the District's general fund revenue during the 2017 fiscal year.

### 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### Budgetary Information

The general and special revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the general and special revenue funds are adopted on a functional basis.

All annual appropriations lapse at fiscal year end.

#### Excess of Expenditures Over Appropriations

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2017, the District incurred no expenditures in excess of the amounts appropriated at the legal level of budgetary control, the functional level.

#### Related Party Transactions

During the year ended June 30, 2017, the District contracted with a certain board member for lawn mowing services. The value of these services was \$6,660.

# LINDEN COMMUNITY SCHOOLS

## Notes to Financial Statements

### 4. DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown on the Statement of Net Position and Statement of Fiduciary Net Position follows:

|                                      |                     |
|--------------------------------------|---------------------|
| Statement of Net Position            |                     |
| Cash and cash equivalents            | \$ 3,993,303        |
| Statement of Fiduciary Net Position  |                     |
| Cash and cash equivalents            | 259,592             |
| Investments                          | <u>286,585</u>      |
| Total                                | <u>\$ 4,539,480</u> |
| Deposits and investments             |                     |
| Cash on hand                         | \$ 2,500            |
| Deposits (checking/savings accounts) | 2,498,356           |
| Investments                          | <u>2,038,624</u>    |
| Total                                | <u>\$ 4,539,480</u> |

#### Statutory Authority

Michigan law authorizes the District to deposit and invest in:

Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.

Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.

Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allow for all of these types of investments.

# LINDEN COMMUNITY SCHOOLS

## Notes to Financial Statements

### Investments

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following investments.

| Investment                                 | Carrying Value      | Rating     |
|--|---------------------|------------|
| Certificate of deposits/money market funds | \$ 286,585          | n/a        |
| Michigan Liquid Asset Fund (MLAF)          | <u>1,752,040</u>    | S&P - AAAM |
|  | <u>\$ 2,038,625</u> |            |

Certificates of deposit and money market funds are carried at cost and investments in MLAF are carried at amortized cost, which approximates fair value.

### Investment and Deposit Risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. None of the investments had fixed maturities at year end.

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

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$2,813,178 of the District's bank balance of \$3,066,376 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk - Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. The District's investments at June 30, 2017 are not subject to custodial credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

## 5. RECEIVABLES AND PAYABLES

For the year ended June 30, 2017, receivables for the governmental activities are approximately 95 percent due from the State of Michigan, 4 percent due from other governmental units, and 1 percent other receivables. The balance is expected to be collected within the next fiscal year.

# LINDEN COMMUNITY SCHOOLS

## Notes to Financial Statements

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. As of June 30, 2017 the District's governmental funds reported \$143,075 of *unearned revenue* from prepayments on fee-based programs and grant funds.

For the year ended June 30, 2017, accounts payable and accrued liabilities for the governmental activities are approximately 77 percent salaries and benefits payable, 18 percent due to vendors and 5 percent accrued interest on long-term debt.

### 6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017 was as follows:

|   | Beginning Balance    | Additions           | Disposals   | Transfers   | Ending Balance       |
|---|----------------------|---------------------|-------------|-------------|----------------------|
| <b>Governmental Activities</b>              |                      |                     |             |             |                      |
| Capital assets, not being depreciated:      |                      |                     |             |             |                      |
| Construction in progress                    | \$ 62,702            | \$ 662,886          | \$ -        | \$ -        | \$ 725,588           |
| Capital assets, being depreciated:          |                      |                     |             |             |                      |
| Land improvements                           | 6,648,512            | 34,866              | -           | -           | 6,683,378            |
| Construction                                | 45,599,446           | 93,693              | -           | -           | 45,693,139           |
| Buses and other vehicles                    | 44,373               | -                   | -           | -           | 44,373               |
| Machinery and equipment                     | 1,032,778            | -                   | -           | -           | 1,032,778            |
|   | <u>53,325,109</u>    | <u>128,559</u>      | <u>-</u>    | <u>-</u>    | <u>53,453,668</u>    |
| Less accumulated depreciation for:          |                      |                     |             |             |                      |
| Land improvements                           | (3,055,227)          | (317,208)           | -           | -           | (3,372,435)          |
| Construction                                | (15,347,561)         | (963,614)           | -           | -           | (16,311,175)         |
| Buses and other vehicles                    | (37,251)             | (2,980)             | -           | -           | (40,231)             |
| Machinery and equipment                     | (816,816)            | (54,649)            | -           | -           | (871,465)            |
|   | <u>(19,256,855)</u>  | <u>(1,338,451)</u>  | <u>-</u>    | <u>-</u>    | <u>(20,595,306)</u>  |
| Total capital assets being depreciated, net | <u>34,068,254</u>    | <u>(1,209,892)</u>  | <u>-</u>    | <u>-</u>    | <u>32,858,362</u>    |
| Governmental activities capital assets, net | <u>\$ 34,130,956</u> | <u>\$ (547,006)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 33,583,950</u> |

Depreciation expense of \$1,338,451 was charged to the function "Unallocated Depreciation," and not allocated to other functions.

### 7. INTERNAL BALANCES AND TRANSFERS

The District, from time to time, will report interfund balances between some of its funds. These interfund balances result primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the year ended June 30, 2017, the District recorded no interfund balances.

# LINDEN COMMUNITY SCHOOLS

## Notes to Financial Statements

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2017, the District recorded no transfers.

### 8. LONG-TERM DEBT

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2017:

|                          | Beginning Balance    | Additions   | Deductions            | Ending Balance       | Due Within One Year |
|--------------------------|----------------------|-------------|-----------------------|----------------------|---------------------|
| General obligation bonds | \$ 21,730,000        | \$ -        | \$ (1,545,000)        | \$ 20,185,000        | \$ 1,585,000        |
| Bond premiums            | 1,965,938            | -           | (173,322)             | 1,792,616            | 173,322             |
| Installment purchases    | 78,147               | -           | (26,049)              | 52,098               | 26,049              |
| Compensated absences     | 237,030              | -           | (3,866)               | 233,164              | -                   |
| <b>Totals</b>            | <b>\$ 24,011,115</b> | <b>\$ -</b> | <b>\$ (1,748,237)</b> | <b>\$ 22,262,878</b> | <b>\$ 1,784,371</b> |

Installment purchases and compensated absences are typically liquidated by the general fund.

#### General obligation bonds

|   |                             |
|---|-----------------------------|
| 2012 Refunding Bonds, due in annual installments of \$1,385,000 to \$2,250,000 through 2029; interest at 3.00% to 4.00% | \$ 7,285,000                |
| 2015 Refunding Bonds, due in annual installments of \$100,000 to \$1,620,000 through 2027; interest at 2.00% to 5.00%   | <u>12,900,000</u>           |
| <b>Total</b>  | <b><u>\$ 20,185,000</u></b> |

Annual debt service requirements to maturity for general obligation bonds are as follows:

| Year Ended June 30, | Principal            | Interest            | Total                |
|---------------------|----------------------|---------------------|----------------------|
| 2018                | \$ 1,585,000         | \$ 846,288          | \$ 2,431,288         |
| 2019                | 1,640,000            | 782,888             | 2,422,888            |
| 2020                | 1,495,000            | 717,288             | 2,212,288            |
| 2021                | 1,515,000            | 658,488             | 2,173,488            |
| 2022                | 1,515,000            | 585,613             | 2,100,613            |
| 2023-2027           | 7,975,000            | 1,813,940           | 9,788,940            |
| 2028-2029           | 4,460,000            | 215,314             | 4,675,314            |
| <b>Totals</b>       | <b>\$ 20,185,000</b> | <b>\$ 5,619,819</b> | <b>\$ 25,804,819</b> |

# LINDEN COMMUNITY SCHOOLS

## Notes to Financial Statements

In a previous year, various office equipment was acquired with an installment purchase agreement authorized under Public Act 99. Repayment is due in annual installments ranging from \$26,721 to \$27,393 including principal and interest through 2019. Interest is charged at a rate of 2.58%.

Annual debt service requirements to maturity for installment purchases are as follows:

| Year Ended<br>June 30, | Principal        | Interest        | Total            |
|------------------------|------------------|-----------------|------------------|
| 2018                   | \$ 26,049        | \$ 1,344        | \$ 27,393        |
| 2019                   | 26,049           | 672             | 26,721           |
| Totals                 | <u>\$ 52,098</u> | <u>\$ 2,016</u> | <u>\$ 54,114</u> |

## 9. SHORT-TERM DEBT

During the year, the District financed certain of its operations through the issuance of property tax and State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly are recorded as liabilities of the respective funds from which they were issued.

Changes in short-term state aid notes for the year ended June 30, 2017, were as follows:

|                | Beginning<br>Balance | Additions           | Deductions            | Ending Balance      |
|----------------|----------------------|---------------------|-----------------------|---------------------|
| State aid note | <u>\$ 2,163,760</u>  | <u>\$ 2,500,000</u> | <u>\$ (2,668,908)</u> | <u>\$ 1,994,852</u> |

## 10. RISK MANAGEMENT

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

The District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method the District must reimburse the Employment Commission for all benefits paid out. No material unemployment expense is recorded in the Statement of Activities and no provision has been made for possible future claims.

# LINDEN COMMUNITY SCHOOLS

## Notes to Financial Statements

The District is self-insured for certain dental and vision claims. An independent third-party administers the District’s self-insured dental/vision program. Changes in the balances of claims liabilities during the past two years are as follows:

|   | Employee<br>Benefits |
|---|----------------------|
|   | Dental/Vision        |
| Estimated liability,<br>June 30, 2015     | \$ 3,169             |
| Estimated claims incurred                 | 37,602               |
| Claim payments                            | (37,917)             |
| <br>Estimated liability,<br>June 30, 2016 | <br>2,854            |
| Estimated claims incurred                 | 36,493               |
| Claim payments                            | <u>(34,279)</u>      |
| <br>Estimated liability,<br>June 30, 2017 | <br><u>\$ 5,068</u>  |

## 11. PROPERTY TAXES

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of July 1 and December 1, and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14, and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within 60 days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.

# LINDEN COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Tax Abatements*

The District is subject to tax abatement agreements entered into by other governmental entities within its boundaries which reduce the District's tax revenues. Agreements affecting the District as of June 30, 2017 are as follows:

|                 | Industrial<br>Facilities<br>Tax<br>MCL 207.551, et<br>seq | Payment in<br>Lieu of<br>Taxes<br>MCL 211.7d |
|-----------------|---|--|
| Taxable Value:  |   |  |
| City of Linden  | \$ -  | \$ 2,329,623                                 |
| Tyrone Township | 2,363,100   | -  |
| <b>Totals</b>   | <b><u>\$ 2,363,100</u></b>                                | <b><u>\$ 2,329,623</u></b>                   |
| Taxes Reduced:  |   |  |
| Operating **    | 42,539  | 41,933                                       |
| Debt            | 10,398  | 10,250                                       |
| Sinking Fund    | 3,062   | 3,019  |
| <b>Totals</b>   | <b><u>\$ 55,999</u></b>                                   | <b><u>\$ 55,202</u></b>                      |

\*\* Operating taxes lost are reimbursed to the District by the State of Michigan.

## 12. RETIREMENT PLAN

### *Plan Description*

The Michigan Public School Employees' Retirement System (the "System" or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "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 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 at [www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr).

# LINDEN COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Benefits Provided*

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

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

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

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

| Benefit Structure            | Member Rates | Employer Rates  |
|------------------------------|--------------|-----------------|
| Basic                        | 0.0% - 4.0%  | 18.95% - 19.03% |
| Member Investment Plan (MIP) | 3.0% - 7.0%  | 18.95% - 19.03% |
| Pension Plus                 | 3.0% - 6.4%  | 17.73% - 18.40% |
| Defined Contribution         | 0.0%         | 14.56% - 15.27% |

The District's contribution to MPERS under all pension plans for the year ended June 30, 2017 was \$3,700,208.

# LINDEN COMMUNITY SCHOOLS

## Notes to Financial Statements

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

At June 30, 2017, the District reported a liability of \$39,036,755 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2015. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2016, the District's proportion was 0.1564650700%, which was an increase of 0.00093% from its proportion measured as of September 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$4,121,526. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources | Net Deferred<br>Outflows<br>(Inflows) of<br>Resources |
|---|--------------------------------------|-------------------------------------|---|
| Difference between expected and actual experience   | \$ 486,501                           | \$ 92,518                           | \$ 393,983  |
| Changes in assumptions  | 610,309                              | -                                   | 610,309   |
| Net difference between projected and actual earnings on pension plan investments                              | 648,791                              | -                                   | 648,791   |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 1,156,069                            | 30,924                              | 1,125,145   |
|   | <u>2,901,670</u>                     | <u>123,442</u>                      | <u>2,778,228</u>                                      |
| District contributions subsequent to the measurement date   | 3,335,504                            | -                                   | 3,335,504   |
|   | <u>3,335,504</u>                     | <u>-</u>                            | <u>3,335,504</u>                                      |
| Total   | <u>\$ 6,237,174</u>                  | <u>\$ 123,442</u>                   | <u>\$ 6,113,732</u>                                   |

The \$3,335,504 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. 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<br>June 30, | Amount              |
|------------------------|---------------------|
| 2018                   | \$ 708,248          |
| 2019                   | 657,306             |
| 2020                   | 1,237,524           |
| 2021                   | 175,150             |
| Total                  | <u>\$ 2,778,228</u> |

# LINDEN COMMUNITY SCHOOLS

## Notes to Financial Statements

### *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. The total pension liability in the September 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                                  |   |
|----------------------------------|---|
| Actuarial cost method            | Entry age, normal   |
| Wage inflation rate              | 3.5%  |
| Investment rate of return:       |   |
| MIP and Basic plans (non-hybrid) | 8.0%  |
| Pension Plus plan (hybrid)       | 7.5%  |
| Projected salary increases       | 3.5% - 12.3%, including wage inflation at 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. |

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, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study.

# LINDEN COMMUNITY SCHOOLS

## Notes to Financial Statements

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016, are summarized in the following table:

| Asset Class                          | Target Allocation | Long-term Expected Real Rate of Return | Expected Money-Weighted Rate of Return |
|--------------------------------------|-------------------|--|--|
| Domestic equity pools                | 28.00%            | 5.90%                                  | 1.64%                                  |
| Alternative investment pools         | 18.00%            | 9.20%                                  | 1.66%                                  |
| International equity pools           | 16.00%            | 7.20%                                  | 1.15%                                  |
| Fixed income pools                   | 10.50%            | 0.90%                                  | 0.09%                                  |
| Real estate and infrastructure pools | 10.00%            | 4.30%                                  | 0.43%                                  |
| Absolute return pools                | 15.50%            | 6.00%                                  | 0.93%                                  |
| Short-term investment pools          | 2.00%             | 0.00%                                  | 0.00%                                  |
|                                      | <u>100.00%</u>    |  | 5.90%                                  |
| Inflation                            |                   |  | <u>2.10%</u>                           |
| Investment rate of return            |                   |  | <u>8.00%</u>                           |

### *Discount Rate*

A discount rate of 8.0% 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 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# LINDEN COMMUNITY SCHOOLS

## Notes to Financial Statements

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

|   | 1% Decrease<br>(7.0%) | Current<br>Discount Rate<br>(8.0%) | 1% Increase<br>(9.0%) |
|---|-----------------------|------------------------------------|-----------------------|
| District's proportionate share of the net pension liability | \$ 50,269,514         | \$ 39,036,755                      | \$ 29,566,458         |

### *Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

### *Payable to the Pension Plan*

At June 30, 2017, the District reported a payable of \$494,468 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2017.

### *Other Postemployment Benefits*

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the *Premium Subsidy* plan, a defined benefit postemployment healthcare plan, which is funded by employers on a prefunded basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Employer contributions range from 5.69% to 6.83% of covered payroll. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% of cost.

Plan members enrolled on or after September 4, 2012 participate in the *Personal Healthcare Fund*. This defined contribution other postemployment benefits plan includes a required 2% employee contribution into a personal tax-deferred account, which is matched by an additional 2% employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3% employee contribution. Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual's Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 were declared unconstitutional by the Supreme Court. Such amounts will be refunded by MPSERS to each District, including interest, and will then be refunded to individual employees.

# LINDEN COMMUNITY SCHOOLS

## Notes to Financial Statements

The District's contributions to MPERS for other postemployment benefits amounted to \$1,210,726 for the year ended June 30, 2017.

### 13. SINKING FUNDS

The Sinking Capital Projects Fund records capital project activities funded with a sinking fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

### 14. CONSTRUCTION COMMITMENTS

The District has active construction projects for the replacement of various HVAC and mechanical equipment on two buildings. As of June 30, 2017 the District had outstanding commitments with contractors on this project totaling \$209,273. The projects are being financed with sinking fund millage collections.

### 15. INVESTED IN CAPITAL ASSETS NET OF RELATED DEBT

The composition of net investment in capital assets as of June 30, 2017, was as follows:

|   | Governmental<br>Activities |
|---|----------------------------|
| Capital assets:                               |                            |
| Capital assets not being depreciated          | \$ 725,588                 |
| Capital assets being depreciated, net         | <u>32,858,362</u>          |
|   | <u>33,583,950</u>          |
| Related debt:                                 |                            |
| Bonds payable                                 | 20,185,000                 |
| Premiums/discounts on bonds payable, net      | 1,792,616                  |
| Installment purchases                         | 52,098                     |
| Deferred loss on advance bond refundings, net | (988,023)                  |
| Unexpended bond proceeds                      | <u>(101,416)</u>           |
|   | <u>20,940,275</u>          |
| Net investment in capital assets              | <u>\$ 12,643,675</u>       |

# LINDEN COMMUNITY SCHOOLS

## Notes to Financial Statements

### 16. SUBSEQUENT EVENTS

#### *State Aid Anticipation Notes*

Subsequent to year end, the District issued \$2,750,000 of State Aid anticipation notes through the Michigan Finance Authority's State Aid Note Program. The notes are due in August 2018 and bear interest at effective rates ranging from 1.27% to 1.49%.

#### *Retirement Plan Discount Rate*

In 2017, the Michigan Public Schools Employees' Retirement System's Board approved a decrease in the assumed investment rate of return (discount rate) to be used in the System's annual actuarial valuation for the non-hybrid defined benefit pension plan from 8.0% to 7.5% effective for the 2016 valuation and following. The September 30, 2016 Annual Actuarial Valuation Report will be used to establish the employer contribution for fiscal year beginning October 1, 2018 and will be based upon the 7.5% investment rate of return assumption. The actuarial computed employer contributions and the net pension liability are expected to increase as a result of lowering the assumed investment rate of return.



## REQUIRED SUPPLEMENTARY INFORMATION

# LINDEN COMMUNITY SCHOOLS

## Required Supplementary Information MPERS Cost-Sharing Multiple-Employer Plan

### Schedule of the District's Proportionate Share of the Net Pension Liability

|  | Year Ended June 30, |               |               |
|--|---------------------|---------------|---------------|
|  | 2015                | 2016          | 2017          |
| District's proportion of the net pension liability   | \$ 32,847,342       | \$ 37,988,571 | \$ 39,036,755 |
| District's proportionate share of the net pension liability  | 0.14912645%         | 0.15553134%   | 0.15646507%   |
| District's covered payroll   | \$ 12,761,448       | \$ 13,109,717 | \$ 13,214,827 |
| District's proportionate share of the net pension liability as a percentage of its covered payroll | 257.40%             | 289.77%       | 295.40%       |
| Plan fiduciary net position as a percentage of the total pension liability                         | 66.20%              | 63.17%        | 63.27%        |

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

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

# LINDEN COMMUNITY SCHOOLS

## Required Supplementary Information MPERS Cost-Sharing Multiple-Employer Plan

### Schedule of District Contributions

|  | Year Ended June 30, |                    |                    |
|--|---------------------|--------------------|--------------------|
|  | 2015                | 2016               | 2017               |
| Contractually required contribution                                  | \$ 3,964,219        | \$ 3,560,170       | \$ 3,700,208       |
| Contributions in relation to the contractually required contribution | <u>(3,964,219)</u>  | <u>(3,560,170)</u> | <u>(3,700,208)</u> |
| Contribution deficiency (excess)                                     | <u>\$ -</u>         | <u>\$ -</u>        | <u>\$ -</u>        |
| District's covered payroll   | \$ 13,137,256       | \$ 13,178,791      | \$ 12,983,535      |
| Contributions as a percentage of covered payroll                     | 30.18%              | 27.01%             | 28.50%             |

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

## COMBINING FUND FINANCIAL STATEMENTS

# LINDEN COMMUNITY SCHOOLS

## Combining Balance Sheet Nonmajor Governmental Funds June 30, 2017

|  | Special Revenue   |                   | Debt Service      |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | Food Service      | Community Service | 2012 Debt Service | 2015 Debt Service |
| <b>Assets</b>                              |                   |                   |                   |                   |
| Cash and cash equivalents                  | \$ 234,985        | \$ 69,518         | \$ 329,721        | \$ 76,752         |
| Accounts receivable                        | 1,900             | 347               | -                 | -                 |
| Due from other governments                 | 9,077             | 89,709            | -                 | -                 |
| Inventory                                  | 6,652             | -                 | -                 | -                 |
| <b>Total assets</b>                        | <b>\$ 252,614</b> | <b>\$ 159,574</b> | <b>\$ 329,721</b> | <b>\$ 76,752</b>  |
| <b>Liabilities</b>                         |                   |                   |                   |                   |
| Accounts payable                           | \$ 107            | \$ 455            | \$ -              | \$ -              |
| Salaries and benefits payable              | 12,189            | 9,547             | -                 | -                 |
| Unearned revenue                           | 19,164            | 14,563            | -                 | -                 |
| <b>Total liabilities</b>                   | <b>31,460</b>     | <b>24,565</b>     | <b>-</b>          | <b>-</b>          |
| <b>Fund balances</b>                       |                   |                   |                   |                   |
| Nonspendable - Inventory                   | 6,652             | -                 | -                 | -                 |
| Restricted                                 | 214,502           | 135,009           | 329,721           | 76,752            |
| <b>Total fund balances</b>                 | <b>221,154</b>    | <b>135,009</b>    | <b>329,721</b>    | <b>76,752</b>     |
| <b>Total liabilities and fund balances</b> | <b>\$ 252,614</b> | <b>\$ 159,574</b> | <b>\$ 329,721</b> | <b>\$ 76,752</b>  |



| Capital Projects      |                   |
|-----------------------|-------------------|
| 2003 Capital Projects | Total             |
| \$ 101,416            | \$ 812,392        |
| -                     | 2,247             |
| -                     | 98,786            |
| -                     | 6,652             |
| <hr/>                 |                   |
| <u>\$ 101,416</u>     | <u>\$ 920,077</u> |

|       |        |
|-------|--------|
| \$ -  | \$ 562 |
| -     | 21,736 |
| -     | 33,727 |
| <hr/> |        |
| -     | 56,025 |
| <hr/> |        |

|                   |                   |
|-------------------|-------------------|
| -                 | 6,652             |
| <u>101,416</u>    | <u>857,400</u>    |
| <u>101,416</u>    | <u>864,052</u>    |
| <u>\$ 101,416</u> | <u>\$ 920,077</u> |

# LINDEN COMMUNITY SCHOOLS

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds For the Year Ended June 30, 2017

|   | Special Revenue   |                   | Debt Service      |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | Food Service      | Community Service | 2012 Debt Service | 2015 Debt Service |
| <b>Revenues</b>                         |                   |                   |                   |                   |
| Local sources                           | \$ 529,346        | \$ 400,145        | \$ 1,824,726      | \$ 793,871        |
| State sources                           | 61,109            | 273,921           | 24,673            | 12,253            |
| Federal sources                         | 395,651           | -                 | -                 | -                 |
| <b>Total revenues</b>                   | <b>986,106</b>    | <b>674,066</b>    | <b>1,849,399</b>  | <b>806,124</b>    |
| <b>Expenditures</b>                     |                   |                   |                   |                   |
| Food service activities                 | 924,741           | -                 | -                 | -                 |
| Community services                      | -                 | 614,243           | -                 | -                 |
| Debt service:                           |                   |                   |                   |                   |
| Principal                               | -                 | -                 | 1,345,000         | 200,000           |
| Interest                                | -                 | -                 | 295,581           | 598,601           |
| Capital outlay                          | 1,726             | -                 | -                 | -                 |
| <b>Total expenditures</b>               | <b>926,467</b>    | <b>614,243</b>    | <b>1,640,581</b>  | <b>798,601</b>    |
| <b>Net change in fund balances</b>      | <b>59,639</b>     | <b>59,823</b>     | <b>208,818</b>    | <b>7,523</b>      |
| <b>Fund balances, beginning of year</b> | <b>161,515</b>    | <b>75,186</b>     | <b>120,903</b>    | <b>69,229</b>     |
| <b>Fund balances, end of year</b>       | <b>\$ 221,154</b> | <b>\$ 135,009</b> | <b>\$ 329,721</b> | <b>\$ 76,752</b>  |



| Capital Projects      |                   |
|-----------------------|-------------------|
| 2003 Capital Projects | Total             |
| \$ 167                | \$ 3,548,255      |
| -                     | 371,956           |
| -                     | 395,651           |
| <hr/>                 |                   |
| 167                   | 4,315,862         |
| <hr/>                 |                   |
| -                     | 924,741           |
| -                     | 614,243           |
| -                     | 1,545,000         |
| -                     | 894,182           |
| 27,439                | 29,165            |
| <hr/>                 |                   |
| 27,439                | 4,007,331         |
| <hr/>                 |                   |
| (27,272)              | 308,531           |
| 128,688               | 555,521           |
| <hr/>                 |                   |
| <u>\$ 101,416</u>     | <u>\$ 864,052</u> |

## SINGLE AUDIT ACT COMPLIANCE

**Independent Auditors' Report on the Schedule of Expenditures of Federal Awards  
Required by the Uniform Guidance**

October 16, 2017

To the Board of Education  
Linden Community Schools  
Linden, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Linden Community Schools* (the "District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 16, 2017, 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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 expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Rehmann Robson LLC*

# LINDEN COMMUNITY SCHOOLS

## Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2017

| Federal Agency / Cluster / Program Title     | CFDA Number | Passed Through | Pass-through / Grantor Number |
|--|-------------|----------------|-------------------------------|
| U.S. Department of Agriculture               |             |                |                               |
| Child Nutrition Cluster:                     |             |                |                               |
| Non-cash assistance:                         |             |                |                               |
| Entitlement commodities                      | 10.555      | MDE            | n/a                           |
| Cash assistance:                             |             |                |                               |
| 2015-2016 School Breakfast                   | 10.553      | MDE            | 161970                        |
| 2016-2017 School Breakfast                   | 10.553      | MDE            | 171970                        |
| 2015-2016 National School Lunch - Section 11 | 10.555      | MDE            | 161960                        |
| 2016-2017 National School Lunch - Section 11 | 10.555      | MDE            | 171960                        |
| Total U.S. Department of Agriculture         |             |                |                               |
| U.S. Department of Education                 |             |                |                               |
| 2015-2016 Title I, Part A                    | 84.010      | MDE            | 161530-1516                   |
| 2016-2017 Title I, Part A                    | 84.010      | MDE            | 171530-1617                   |
| 2015-2016 Title II, Part A                   | 84.367      | MDE            | 160520-1516                   |
| 2016-2017 Title II, Part A                   | 84.367      | MDE            | 170520-1617                   |
| Special Education Cluster:                   |             |                |                               |
| 2015-2016 IDEA Flowthrough                   | 84.027      | GISD           | 160450-1516                   |
| 2016-2017 IDEA Flowthrough                   | 84.027      | GISD           | 170450-1617                   |
| Total U.S. Department of Education           |             |                |                               |
| U.S. Department of Health and Human Services |             |                |                               |
| Medicaid Cluster:                            |             |                |                               |
| 2015-2016 Medicaid Outreach                  | 93.778      | GISD           | n/a                           |
| 2016-2017 Medicaid Outreach                  | 93.778      | GISD           | n/a                           |
| Total Federal Financial Assistance           |             |                |                               |

See notes to schedule of expenditures of federal awards.

| Approved Grant Award Amount | Accrued (Unearned) Revenue June 30, 2016 | Current Year Cash Received | Expenditures (Memo Only) Prior Year(s) | Expenditures Year Ended June 30, 2017 | Accrued (Unearned) Revenue June 30, 2017 |
|-----------------------------|--|----------------------------|--|---------------------------------------|--|
| \$ 54,410                   | \$ -                                     | \$ 54,410                  | \$ -                                   | \$ 54,410                             | \$ -                                     |
| 4,478                       | -  | 4,478                      | -                                      | 4,478                                 | -  |
| 48,455                      | -  | 38,868                     | -                                      | 48,455                                | 9,587                                    |
| 35,907                      | -  | 35,907                     | -                                      | 35,907                                | -  |
| 252,401                     | -  | 207,595                    | -                                      | 252,401                               | 44,806                                   |
|                             | -  | 286,848                    | -                                      | 341,241                               | 54,393                                   |
|                             | -  | 341,258                    | -                                      | 395,651                               | 54,393                                   |
| 365,621                     | 109,352                                  | 139,994                    | 287,019                                | 30,642                                | -  |
| 417,228                     | -  | 127,302                    | -                                      | 306,926                               | 179,624                                  |
|                             | 109,352                                  | 267,296                    | 287,019                                | 337,568                               | 179,624                                  |
| 118,565                     | 45,923                                   | 52,172                     | 45,923                                 | 6,249                                 | -  |
| 112,458                     | -  | -                          | -                                      | 14,202                                | 14,202                                   |
|                             | 45,923                                   | 52,172                     | 45,923                                 | 20,451                                | 14,202                                   |
| 770,193                     | 302,232                                  | 302,232                    | 770,193                                | -                                     | -  |
| 771,876                     | -  | 480,100                    | -                                      | 771,876                               | 291,776                                  |
|                             | 302,232                                  | 782,332                    | 770,193                                | 771,876                               | 291,776                                  |
|                             | 457,507                                  | 1,101,800                  | 1,103,135                              | 1,129,895                             | 485,602                                  |
| 2,293                       | 2,293                                    | 2,293                      | 2,293                                  | -                                     | -  |
| 2,722                       | -  | -                          | -                                      | 2,722                                 | 2,722                                    |
|                             | 2,293                                    | 2,293                      | 2,293                                  | 2,722                                 | 2,722                                    |
|                             | \$ 459,800                               | \$ 1,445,351               | \$ 1,105,428                           | \$ 1,528,268                          | \$ 542,717                               |

# LINDEN COMMUNITY SCHOOLS

## Notes to Schedule of Expenditures of Federal Awards

### 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Linden Community Schools (the "District") under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the 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 the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

The Schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this Schedule.

For purposes of charging indirect costs to federal awards, the City has not elected to use the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

### 3. PASS-THROUGH AGENCIES

The District receives certain federal grants as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

| Pass-through Agency Abbreviation | Pass-through Agency Name             |
|----------------------------------|--------------------------------------|
| GISD                             | Genesee Intermediate School District |
| MDE                              | Michigan Department of Education     |



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

October 16, 2017

To the Board of Education  
Linden Community Schools  
Linden, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Linden Community Schools* (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 16, 2017.

#### Internal Control Over Financial Reporting

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

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

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

## Compliance and Other Matters

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

## Purpose of this Report

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

*Rehmann Johnson LLC*

Independent Auditors' Report on Compliance for Each Major Federal Program  
and Internal Control over Compliance Required by the Uniform Guidance

October 16, 2017

To the Board of Education  
Linden Community Schools  
Linden, Michigan

Report on Compliance for Each Major Federal Program

We have audited the compliance of *Linden Community Schools* (the "District") with the types of compliance requirements described in the *OMB Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2017. The District's major federal program is identified in the summary of auditors' 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.

*Independent Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the District's 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

### *Opinion on the Major Federal Program*

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

### **Report on Internal Control Over Compliance**

Management of the District 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 the District's 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 the District's 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 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.

### *Purpose of this Report*

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.

A handwritten signature in black ink that reads "Lehmann Loborn LLC". The signature is written in a cursive, flowing style.

# LINDEN COMMUNITY SCHOOLS

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2017

### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

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 auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?            yes   X   no

Identification of major programs:

#### CFDA Number

#### Name of Federal Program or Cluster

84.027

Special Education Cluster (IDEA)

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

Auditee qualified as low-risk auditee?   X   yes            no

# LINDEN COMMUNITY SCHOOLS

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2017

### SECTION II - FINANCIAL STATEMENT FINDINGS

None reported

### SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

# LINDEN COMMUNITY SCHOOLS

## Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2017

No matters were reported.

