



NILES COMMUNITY SCHOOLS
FINANCIAL STATEMENTS
Year Ended June 30, 2019

NILES COMMUNITY SCHOOLS

NILES, MICHIGAN

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Niles Community Schools
Niles, 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 Niles Community Schools (the "District"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Niles Community Schools' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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 Niles Community Schools as of June 30, 2019, and the respective changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Required Supplemental Information

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

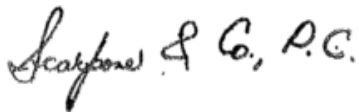
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Niles Community Schools' basic financial statements. The other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relate 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 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 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 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated October 9, 2019, on our consideration of Niles Community Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing Niles Community Schools' internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Scarfone & Co., P.C.".

Niles, Michigan
October 9, 2019

NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

As management of the Niles Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the notes and financial statements, which follow this section.

As with other sections of this financial report, the information contained within this MD&A should be considered only a part of a greater whole. The readers of this statement should take time to read and evaluate all sections of this report, including the footnotes and the other Required Supplemental Information ("RSI") that is provided in addition to this MD&A.

FINANCIAL HIGHLIGHTS

The \$60,951,081 in deficit unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Without the effects of GASB Statement No. 68 and 75, the District's total net position would be \$15,349,143. This amount enables the District to meet working capital and cash flow requirements as well as provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position (deficit) from year to year.

The results of this year's operations for the District as a whole are reported in the statement of activities as summarized in Table 2 which shows the changes in net position for the fiscal years 2019 and 2018.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Niles Community Schools' finances, in a manner similar to a private-sector business.

1) The Statement of Net Position

This statement reports all assets and liabilities of the District as of June 30, 2019. The difference between total assets and total liabilities is reported as "net position." Increases in net position generally indicates an improvement in financial position while a decrease may indicate a deterioration of financial position.

2) The Statement of Activities

This statement serves the purpose of the traditional income statement. It provides consolidated reporting of the results of all activities of the District for the year ended June 30, 2019. Changes in net position are recorded in the period in which the underlying event takes place, which may differ from the period in which cash is received or disbursed. The Statement of Activities displays the expense of the District's various programs net of the related revenues, as well as a separate presentation of revenues available for general purposes.

NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2019

OVERVIEW OF FINANCIAL STATEMENTS-CONCLUDED

Both of the government-wide financial statements distinguish functions of the District that are principally supported by intergovernmental revenues (pupil allowance), taxes and other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The major governmental activities of Niles Community Schools include major instructional and instructional support activities. Other relevant governmental funds include Capital Projects and the Food Service Fund.

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 Michigan schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual."

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-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 government's near-term financing requirements.

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 school district's government-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. The District has one fiduciary fund, the School Activity Agency Fund.

Notes to the financial statements

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

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information. The combining statements referred to earlier in connection with nonmajor funds and fiduciary funds are presented immediately after the basic financial statements. Also included are budget comparisons for the general fund.

NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The statement of net position (deficit) provides the perspective of the District as a whole. A summary of the District's net position (deficit) as of June 30, 2019 and 2018 is as follows:

Table 1
Statement of Net Position (Deficit)
Governmental Activities

	<u>2019</u>	<u>2018</u>
Assets		
Current and other assets	\$ 23,097,437	\$ 24,676,759
Capital assets (net)	<u>45,015,349</u>	<u>38,028,130</u>
Total assets	68,112,786	62,704,889
Deferred outflows of resources	<u>19,830,732</u>	<u>10,590,939</u>
Total assets and deferred outflows of resources	<u>87,943,518</u>	<u>73,295,828</u>
Liabilities		
Current liabilities	13,088,890	8,695,574
Long-term liabilities	39,674,753	40,586,408
Net pension liability	59,453,833	52,847,951
Net OPEB liability	<u>15,448,292</u>	<u>18,136,544</u>
Total liabilities	127,665,768	120,266,477
Deferred inflows of resources	<u>10,083,516</u>	<u>3,570,774</u>
Total liabilities and deferred inflows of resources	<u>137,749,284</u>	<u>123,837,251</u>
Net Position (Deficit)		
Net investment in capital assets	7,317,297	6,358,494
Restricted	3,828,018	2,839,486
Unrestricted	<u>(60,951,081)</u>	<u>(59,739,403)</u>
Total net position (deficit)	<u>\$ (49,805,766)</u>	<u>\$ (50,541,423)</u>

The financial analysis will focus on the net position (Table 1) and changes in net position (Table 2) of the District's governmental activities.

As noted earlier, net position (deficit) may serve over time as a useful indicator of a government's financial position. At June 30, 2019, the District's net position (deficit) was \$(49,805,766).

A portion of the District's net position (deficit), \$3,828,018, represents resources subject to external restrictions on how they may be used.

NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS- CONCLUDED

Another portion of the District's net position, \$7.3 million reflects its investment in capital assets less depreciation and any related debt used to acquire those assets that is still outstanding. The District uses capital assets to provide services which in turn leave these assets not available for future spending.

Table 2
Changes in Net Position (Deficit)

	<u>2019</u>	<u>2018</u>
Program Revenues:		
Charges for services	\$ 548,831	\$ 597,544
Operating grants and contributions	12,416,127	11,908,519
General Revenues:		
Property taxes	6,125,200	6,010,464
Michigan State Aid	25,819,775	27,346,245
Interest and investment earnings	201,842	215,347
Other revenues	548,062	151,426
Total revenues	<u>45,659,837</u>	<u>46,229,545</u>
Expenses:		
Instruction	24,931,842	25,559,656
Support	16,055,437	15,707,615
Community services	214,208	272,609
Food service	1,496,325	1,548,513
Interest on short & long-term debt & bond costs	1,590,360	1,546,749
Athletics	636,008	680,179
Total expenses	<u>44,924,180</u>	<u>45,315,321</u>
Increase in net position	735,657	914,224
Net position (deficit), beginning of year	<u>(50,541,423)</u>	<u>(51,455,647)</u>
Net position (deficit), end of year	<u>\$ (49,805,766)</u>	<u>\$ (50,541,423)</u>

GOVERNMENTAL ACTIVITIES

Niles Community Schools is heavily reliant on state aid, grants and property taxes to support operations. State aid provided 57%, grants 27% and taxes 13% of the school district's total revenues. Also, charges for services represent 1% of governmental operating revenues. This means that the District relies on state taxpayers and federal revenues to cover 97% of governmental activities. For school districts, in general, self-generated revenue is a relatively small percentage of total revenues.

NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2019

GOVERNMENTAL ACTIVITIES-CONCLUDED

The District's largest category of functional expenses is related to the direct instruction of regular education, special education and other students. Instructional expenditures comprised \$24.9 million or 55% of the total expenses. These costs include teacher salaries and benefits, textbooks and supplies used in instruction.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

As noted earlier, Niles Community Schools 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

The purpose 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.

At the end of the current fiscal year, the District's governmental funds reported a combined ending fund balance of \$10,251,492. Of this amount, \$4,323,512 (42%) is unassigned fund balance, which is available for spending at the District's discretion. The unassigned fund balance will be used at the discretion of the School Board for revenue shortfalls, capital projects and any other unexpected expenditures.

The general fund is the District's chief operating fund. At the end of the current fiscal year, the fund balance of the general fund was \$4,609,285, a decrease of \$38,018.

Individual fund data for each of the nonmajor governmental funds is provided in the form of the combining statements in the Supplemental Information section.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. The basic fiduciary funds financial statements can be found later in this report.

GENERAL FUND AND BUDGETARY HIGHLIGHTS

The District adopts an annual appropriated budget for its general fund. The final actual expenditures were less than the final budget expenditures by approximately \$978,000. The general fund budget is reviewed throughout the year and revised twice a year with the approval of the School Board. At the end of the fiscal year, the actual expenditures are projected and the budget is amended to prevent any budget overruns. The District tries to work within its original budget by increasing categories that will exceed the budget while decreasing other categories to cover these overruns. If this transferring will not cover these expenditures then the District must appropriate from its fund balance.

NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2019

GENERAL FUND AND BUDGETARY HIGHLIGHTS-CONCLUDED

The actual revenues are approximately \$523,000 under budget and actual expenditures are approximately \$978,000 under budget. The majority of these variances are due to actual grant funds not received or expended in full in the 2018-2019 school year. Overall, the District's budget has been prepared on a conservative basis and has provided adequate resources to fund services provided. All schools have limited resources and, thus, limited numbers of programs and services that can be provided. We are proud to say we have done well in terms of maintaining a solid, financially sound organization by spending within our means.

CAPITAL ASSETS

The District's investment in capital assets for its governmental activities at June 30, 2019, amounts to \$45,015,349 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, automobiles and equipment. A detailed note of these capital assets can be found in the Notes to the Financial Statements (Note D).

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

- Improvements to school buildings within the school district

Table 3
Capital Assets-Governmental Activities

	<u>2019</u>	<u>2018</u>
Capital assets not being depreciated:		
Land	\$ 151,500	\$ 151,500
Construction in progress	24,038,592	32,148,064
	<u>24,190,092</u>	<u>32,299,564</u>
Capital assets being depreciated:		
Building	34,457,753	18,842,140
Improvements other than buildings	2,343,998	2,343,998
Equipment	1,198,403	1,293,200
Vehicles	527,910	499,053
	<u>38,528,064</u>	<u>22,978,391</u>
Less accumulated depreciation for:		
Buildings	13,859,558	13,342,869
Improvements other than buildings	2,267,300	2,260,731
Equipment	1,116,704	1,202,382
Vehicles	459,245	443,843
	<u>17,702,807</u>	<u>17,249,825</u>
Total capital assets being depreciated, net	<u>20,825,257</u>	<u>5,728,566</u>
Total capital assets, net	<u>\$ 45,015,349</u>	<u>\$ 38,028,130</u>

NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2019

DEBT ADMINISTRATION

At June 30, 2019, the District had debt outstanding for Qualified Zone Academy Bonds and 2015 Building and Site Bonds in the amounts of \$813,700 and \$38,705,000, respectively.

In addition to bonded debt, the school district has incurred liabilities for early retirement obligations and compensated absences earned by employees.

A detailed listing of this debt can be found in the Notes to the Financial Statements (Note G).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The general fund revenue is being budgeted at less than 2018-2019 amended budget without the MPSRS Rate Stabilization Funds. The State of Michigan revenues are essentially overstated in FY 2018-2019 due to an accounting change at the state level that requires over \$2.2 million of retirement system dollars that were previously paid directly by the State of Michigan to be allocated to local schools as a pass-through on their books. This results in both revenues and expenditures to be inflated by the same amount.

Local Revenue

All revenues in this category are being budgeted at or near 2018-2019 levels.

State Revenue

The net revenue decrease from 2018-2019 is \$65,000 when MPSERS Rate Stabilization is taken out. All state aid is based on current projections from the state. This includes a \$180 increase to the foundation allowance. This increases the total foundation to \$8,051. Per our Middle Cities and homeschool student projections, we are budgeting a net decrease in students from 2018-2019 of 80 students. The increase in the foundation increases the State aid by \$172,000.

Federal Revenue

The net revenue decrease from 2018-2019 is \$345,000. This decrease is due to budgeting Title One, Two, Three and Four at the state's estimated funding levels. All other revenues in this category are being budgeted at or around 2018-2019 levels.

Transfers Revenue

The net revenue decrease from 2018-2019 is \$447,000. The majority of this decrease is due to not budgeting any BRESA fund equity distribution. All other revenues in this category are being budgeted at or around 2018-2019 levels.

NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONCLUDED

June 30, 2019

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES-CONCLUDED

Expenditures

General Fund expenditures are being budgeted approximately \$500,000 less than the 2018-2019 amended budget without MPSERS Stabilization Rate Funds and capital transfer. The majority of the budget, 72 percent, is for employee compensation, reflecting the fact that public education is a labor-intensive enterprise. Contract increases for teachers, secretaries and operations maintenance have been incorporated into the budget per negotiated contracts, \$415,000. Increase for 1 to 1 computing, 6th thru 8th grades, \$50,000, total for 1 to 1 \$150,000. Maintenance operating expenditures has decreased due to bond upgrades (\$50,000). Grant expenditures will be budgeted at lower levels to match revenues (\$500,000). State aid interest payment decrease (\$100,000), Dual enrollment tuition decrease (\$25,000), transportation increase \$58,000, utilities decrease (\$40,000), merit pay decrease (\$30,000), this will be determined in the 2019-2020 school year. Net decrease in others accounts (\$277,000).

REQUESTS FOR FINANCIAL INFORMATION

This financial report is designed to provide a general overview of the Niles Community Schools 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 Business Office, Niles Community Schools.

NILES COMMUNITY SCHOOLS

STATEMENT OF NET POSITION

June 30, 2019

ASSETS

Current Assets:

Cash and investments	\$ 15,286,131
Accounts receivable	51,143
Intergovernmental receivable	7,426,301
Prepaid expenses	285,773
Inventories	48,089
	<hr/>
Total current assets	23,097,437

Noncurrent Assets:

Capital assets not being depreciated	24,190,092
Capital assets, being depreciated, net	20,825,257
	<hr/>
Total noncurrent assets	45,015,349
	<hr/>
Total Assets	68,112,786

Deferred Outflows of Resources:

Deferred pension costs	16,937,701
Deferred OPEB costs	2,893,031
	<hr/>
Total Deferred Outflows of Resources	19,830,732

TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES \$ 87,943,518

LIABILITIES

Current Liabilities:

Accounts payable	\$ 1,044,673
Accrued wages and benefits payable	2,445,164
State aid anticipation note	1,700,000
Accrued expenses	6,644,117
Intergovernmental payable	1,254,936

Long-term Liabilities:

Due within one year	1,101,753
Due in more than one year	38,573,000
Net pension liability	59,453,833
Net OPEB liability	15,448,292
	<hr/>
Total Liabilities	127,665,768

Deferred Inflows of Resources:

Deferred pension cost reductions	5,819,913
Deferred OPEB cost reductions	4,263,603
	<hr/>
Total Deferred Inflows of Resources	10,083,516

TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES 137,749,284

NET POSITION (DEFICIT)

Net investment in capital assets	7,317,297
Restricted for debt service	1,157,500
Restricted for capital projects	2,406,195
Restricted for food service	264,323
Unrestricted (deficit)	(60,951,081)
	<hr/>
Total Net Position (Deficit)	\$ <u>(49,805,766)</u>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

STATEMENT OF ACTIVITIES

Year ended June 30, 2019

		<u>Program Revenues</u>		Governmental Activities Net (Expense) Revenue and Changes in Net Position
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction	\$ 24,931,842	\$ 182,199	\$ 12,357,562	\$ (12,392,081)
Support services	16,055,437	14,511	-	(16,040,926)
Athletics	636,008	81,625	-	(554,383)
Food service	1,496,325	270,496	58,565	(1,167,264)
Community services	214,208	-	-	(214,208)
Interest expense	<u>1,590,360</u>	<u>-</u>	<u>-</u>	<u>(1,590,360)</u>
Total Governmental Activities	\$ 44,924,180	\$ 548,831	\$ 12,416,127	\$ (31,959,222)
 General Revenues:				
				3,495,890
Property taxes levied for general purposes				606,485
Property taxes levied for capital projects				2,022,825
Property taxes levied for debt service				25,819,775
State of Michigan aid, unrestricted				201,842
Interest and investment earnings				<u>548,062</u>
Other revenues				
			Total General Revenues	<u>32,694,879</u>
			Change in Net Position	735,657
			Net Position (Deficit), Beginning of Year	<u>(50,541,423)</u>
			Net Position (Deficit), End of Year	<u><u>\$ (49,805,766)</u></u>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2019

	<u>General</u>	<u>2015 Building and Site Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and investments	\$ 9,810,479	\$ 1,820,648	\$ 3,655,004	\$ 15,286,131
Accounts receivable	51,143	-	-	51,143
Due from other funds	-	-	148,000	148,000
Due from other governments	7,222,830	-	203,471	7,426,301
Prepaid expenses	285,773	-	-	285,773
Inventories	-	-	48,089	48,089
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Total Assets	\$ 17,370,225	\$ 1,820,648	\$ 4,054,564	\$ 23,245,437
<u>LIABILITIES</u>				
Accounts payable	\$ 811,668	\$ 6,459	\$ 226,546	\$ 1,044,673
Payroll payable	2,445,164	-	-	2,445,164
Accrued expenses	6,401,172	-	-	6,401,172
Intergovernmental payable	1,254,936	-	-	1,254,936
Due to other funds	148,000	-	-	148,000
Short term borrowings	1,700,000	-	-	1,700,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	12,760,940	6,459	226,546	12,993,945
<u>FUND BALANCES</u>				
Nonspendable	285,773	-	48,089	333,862
Restricted	-	1,814,189	2,405,844	4,220,033
Committed	-	-	1,374,085	1,374,085
Unassigned	4,323,512	-	-	4,323,512
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Total Fund Balances	4,609,285	1,814,189	3,828,018	10,251,492
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	\$ 17,370,225	\$ 1,820,648	\$ 4,054,564	\$ 23,245,437

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET POSITION

June 30, 2019

Total Fund Balances - Governmental Funds \$ 10,251,492

Amounts reported for governmental activities on the statement of net position are different as follows:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:

Cost of capital assets	\$ 62,718,156	
Less, accumulated depreciation	(17,702,807)	
Capital assets, net		45,015,349

Governmental funds report actual pension expenditures for the fiscal year, whereas the governmental activities will recognize the net pension liability as of the measurement date. Pension contributions subsequent to the measurement date will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, and differences between projected and actual pension plan investment earnings will be deferred over time in the district-wide financial statements. These amounts consist of:

Deferred outflows of resources related to pensions	16,937,701	
Deferred inflows of resources related to pensions	<u>(5,819,913)</u>	11,117,788
Deferred outflows of resources related to OPEB	2,893,031	
Deferred inflows of resources related to OPEB	<u>(4,263,603)</u>	(1,370,572)

Accrued interest payable is not included as a liability in governmental funds (242,945)

Long term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:

Bonds and notes payable	(39,518,700)	
Compensated absences and severance pay	(156,053)	
Net pension liability	(59,453,833)	
Net OPEB liability	<u>(15,448,292)</u>	<u>(114,576,878)</u>

Net Position (Deficit) of Governmental Activities \$ (49,805,766)

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year ended June 30, 2019

	<u>General</u>	2015 <u>Building and Site Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:				
Local sources:				
Property taxes	\$ 3,495,890	\$ -	\$ 2,629,310	\$ 6,125,200
Tuition	33,895	-	-	33,895
Interest	51,986	138,403	11,453	201,842
Food sales	-	-	270,496	270,496
Athletic admissions	81,625	-	-	81,625
Other	257,595	20,000	317,467	595,062
Total local sources	<u>3,920,991</u>	<u>158,403</u>	<u>3,228,726</u>	<u>7,308,120</u>
State sources	33,412,925	-	58,565	33,471,490
Federal sources	2,500,466	-	1,241,426	3,741,892
Other	1,138,335	-	-	1,138,335
Total revenues	<u>40,972,717</u>	<u>158,403</u>	<u>4,528,717</u>	<u>45,659,837</u>
Expenditures:				
Current:				
Instruction	23,762,218	-	-	23,762,218
Support services	15,398,398	-	-	15,398,398
Athletics	636,008	-	-	636,008
Food services	-	-	1,496,325	1,496,325
Community services	214,208	-	-	214,208
Capital outlay	11,439	7,083,978	548,841	7,644,258
Debt Service:				
Principal repayment	213,940	-	676,760	890,700
Interest expense	106,524	-	1,486,259	1,592,783
Total expenditures	<u>40,342,735</u>	<u>7,083,978</u>	<u>4,208,185</u>	<u>51,634,898</u>
Excess (deficiency) of revenues over expenditures	<u>629,982</u>	<u>(6,925,575)</u>	<u>320,532</u>	<u>(5,975,061)</u>
Other Financing Sources:				
Operating transfers in	-	-	668,000	668,000
Operating transfers out	(668,000)	-	-	(668,000)
Total other financing sources	<u>(668,000)</u>	<u>-</u>	<u>668,000</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures	(38,018)	(6,925,575)	988,532	(5,975,061)
Fund Balances, Beginning of Year	<u>4,647,303</u>	<u>8,739,764</u>	<u>2,839,486</u>	<u>16,226,553</u>
Fund Balances, End of Year	<u>\$ 4,609,285</u>	<u>\$ 1,814,189</u>	<u>\$ 3,828,018</u>	<u>\$ 10,251,492</u>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES

Year ended June 30, 2019

Net Change in Fund Balances - Total Governmental Funds \$ (5,975,061)

Amounts reported for governmental activities on the statement of activities are different as follows:

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current year:

Depreciation	\$ (556,954)	
Capital outlay-over threshold	7,546,437	6,987,219
Loss on disposal of capital assets	(2,264)	

Interest is recorded in the statement of activities when incurred. It is not reported in governmental funds until paid		2,423
--	--	-------

Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		890,700
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued compensated absences	20,955	
Increase in deferred outflows of resources related to pensions	7,105,397	
Increase in deferred inflows of resources related to pensions	(2,862,287)	
Increase in net pension liability	(6,605,882)	
Increase in deferred outflows of resources related to OPEB	2,134,396	
Increase in deferred inflows of resources related to OPEB	(3,650,455)	
Decrease in net OPEB liability	<u>2,688,252</u>	
		<u>(1,169,624)</u>

Change in Net Position of Governmental Activities \$ 735,657

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

FIDUCIARY FUND

June 30, 2019

Agency Fund -
Student Activities

ASSETS

Cash and cash equivalents

\$ 495,105

LIABILITIES

Due to student activities groups

\$ 495,105

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2019

NOTE A - NATURE OF BUSINESS AND ACCOUNTING POLICIES:

The accounting policies of the Niles Community Schools District ("District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units and with the rules prescribed in the accounting manual by the Michigan Department of Education. A summary of significant policies adopted by the District are as follows:

REPORTING ENTITY:

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

REPORT PRESENTATION:

Government accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants and interest income.

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FUND FINANCIAL STATEMENT PRESENTATION:

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the modified accrual basis of accounting. 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 revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as all eligibility requirements imposed by the provider have been met.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2019

NOTE A - NATURE OF BUSINESS AND ACCOUNTING POLICIES - CONTINUED:

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FUND FINANCIAL STATEMENT PRESENTATION - CONTINUED:

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

When an expense is incurred for purposes for which both restricted and unrestricted net position of fund balance are available, the District's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications might be used, it is the District's policy to spend funds in this order: committed, assigned, and unassigned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

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

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

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

The District reports the following major governmental funds:

General Fund - The General Fund is the primary operating fund of the District and accounts for all financial resources and expenditures of the District, except those required to be accounted for in another fund.

2015 Building and Site Fund - The 2015 Building and Site Fund is used to record bond proceeds as revenue and the disbursement of invoices specifically designated for building improvements and remodeling, and equipment acquisitions. Such revenue can only be expended for allowable capital purposes in accordance with the initial ballot language. This fund operates until the purpose for which it was created is completed.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2019

NOTE A - NATURE OF BUSINESS AND ACCOUNTING POLICIES - CONTINUED:

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FUND FINANCIAL STATEMENT PRESENTATION - CONCLUDED:

Additionally, the District reports the following non-major fund types:

Special Revenue Funds - The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Food Service Fund is the only Special Revenue Fund maintained by the District. The primary sources of revenue for the Food Service Fund are sales to students and grants from the state and federal governments.

Capital Projects Funds - The Capital Projects Funds are used to account for the accumulation of resources and related appropriations for capital outlay expenditures as follows:

Building and Site Fund - The Building and Site Fund accounts for the collection of property taxes related to a sinking fund millage approved by the taxpayers for the years 2016 through 2027. Such revenue can only be expended for allowable capital expenditures in accordance with the initial ballot language.

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

Fiduciary Funds - The Fiduciary Fund is used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the Government-Wide financial statements. This Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The District presently maintains an Agency Fund to record the transactions of student and parent groups for school and school related purposes. The funds are segregated and held in trust for the student and parent groups.

BUDGETS AND BUDGETARY ACCOUNTING:

The District uses the following procedures in establishing the budgetary data reflected in the general purpose financial statements:

1. Prior to June 30, management of the District submits to the Board of Education a proposed operating budget for the fiscal year commencing July 1, of that year. The operating budget includes proposed revenues and expenditures for the General Fund and Special Revenue Fund.
2. Prior to July 1, the budget is legally enacted on an activity level basis through passage of a board resolution.
3. Budget amounts are reported in the basic financial statements as originally adopted or as amended by the Board of Education.
4. Budgets are adopted using the basis of accounting described above.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2019

NOTE A - NATURE OF BUSINESS AND ACCOUNTING POLICIES - CONTINUED:

CASH AND INVESTMENTS:

Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value, except for investments in external investment pools, which are valued at amortized cost. Pooled investment income from the various funds are generally allocated to each fund using a weighted average of the monies invested by such fund.

RECEIVABLES AND PAYABLES:

In general, outstanding balances between funds are reported as "due from/due to other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The District considers all receivables to be fully collectible and, accordingly, no allowance for uncollectible amounts is recorded.

INVENTORIES:

Inventories are valued at cost, on a first-in, first-out basis. Inventories recorded in the Food Service Fund consist of food and paper goods. Additionally, such inventories include donated USDA commodities inventories received which are valued at fair market value at the date of donation.

PROPERTY TAXES:

Property taxes are recognized as revenue on a levy year basis. The 2018 levy amounts are recognized as current property tax revenue to the extent that they are collected during the year or within sixty days after the year end. Collections of delinquent taxes in subsequent years are recognized as property tax revenues in the year collected. Property taxes are levied December 1 on the assessed value of the property located in the District as of the preceding December 31. Assessed values are established annually by the various governmental units within the District and are equalized by the State of Michigan.

TAX ABATEMENTS:

The District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions and Brownfield Redevelopment Agreements granted by various municipalities within the District. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities. Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties. There were no significant abatements made by the District for the year ended June 30, 2019.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2019

NOTE A - NATURE OF BUSINESS AND ACCOUNTING POLICIES - CONTINUED:

STATE AID:

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

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

PREPAID ITEMS

Payments to vendors for services that will benefit periods beyond the District's fiscal year-end are recorded as prepaid items in both government-wide and fund financial statements.

CAPITAL ASSETS:

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

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

Land improvements	20 years
Buildings	50 years
Buses and other vehicles	8 years
Furniture and other equipment	5 to 20 years

SALARIES PAYABLE AND ACCRUED EMPLOYEE BENEFITS:

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the District who do not work during the summer months when school is not in session but have elected to have their salaries paid over an entire year. The liability for accrued retirement and employer share of FICA related to the salaries payable has been recorded, as well as the liability for employee health insurance for the months of July and August.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2019

NOTE A - NATURE OF BUSINESS AND ACCOUNTING POLICIES - CONTINUED:

COMPENSATED ABSENCES:

The liability for compensated absences reported in the government-wide financial statements consists of earned but unused accumulated vacation, sick leave, and termination benefits. The liability has been calculated using the vesting method, in which leave amounts for employees who are currently eligible to receive termination payments in the future and other employees who are expected to become eligible to receive such payments upon termination are included. The liability in the fund financial statements is the current portion, if any, of unpaid compensated absences.

NET PENSION LIABILITY:

The net pension liability is deemed to be a noncurrent liability and is recognized on the government-wide financial statements as the District's proportionate share of the Michigan Public School Employees' Retirement System's (MPERS) total pension liability, less the pension plan's fiduciary net position.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES:

In addition to assets and liabilities, the statement of net position or balance sheet will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources, a separate financial statement element, represents a consumption of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District reports deferred outflows related to deferred pension and other postemployment benefits ("OPEB") costs. Deferred inflows of resources, a separate financial statement element, represents an acquisition of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District's reports deferred inflows related to revenue in support of pension contributions made subsequent to the measurement date and deferred pension and OPEB plan cost reductions and differences between expected and actual experience, changes in assumptions, differences between projected and actual pension plan investment earnings.

LONG-TERM OBLIGATIONS:

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

FUND BALANCE:

Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications are comprised of the following - nonspendable, restricted, committed, assigned, and unassigned.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2019

NOTE A - NATURE OF BUSINESS AND ACCOUNTING POLICIES - CONTINUED:

FUND BALANCE-CONCLUDED:

In the fund financial statements, governmental funds report the following components of fund balance:

- * *Nonspendable* - Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- * *Restricted* - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- * *Committed* - Amounts that have been formally set aside by the Board of Education for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education
- * *Assigned* - Intent to spend resources for specific purposes expressed by the Board of Education, or by District management, who are authorized by resolution and approved by the Board of Education to make assignments
- * *Unassigned* - Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes

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

The Board of Education has adopted a minimum fund balance policy that states that the District will maintain a minimum fund balance equal to five percent of the prior year's actual expenditures and operating transfers. Deficiencies resulting in a fund balance of less than the minimum five percent shall be replenished over a period not to exceed three years.

ESTIMATES:

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

COMPARATIVE DATA:

Comparative data is not included in the District's financial statements.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2019

NOTE A - NATURE OF BUSINESS AND ACCOUNTING POLICIES - CONCLUDED:

MEASUREMENT OF PENSION LIABILITY AND EXPENSE:

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

NOTE B - CASH AND INVESTMENTS:

At June 30, 2019, the District's cash and investments were reported in the basic financial statements as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and investments	\$ 15,286,131	\$ 495,105	\$ 15,781,236

The breakdown between deposits and petty cash for the District is as follows:

Deposits (checking, and savings accounts)	\$ 15,780,131
Petty Cash	<u>1,105</u>
Total cash	<u>\$ 15,781,236</u>

The District's cash is subject to custodial credit risk as detailed below:

Custodial Credit Risk- Deposits: Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2019, \$14,521,096 of the District's deposits in financial institutions was exposed to credit risk because this amount was not covered by federal depository insurance. The District believes that due to the dollar amounts of cash deposits and the limits of federal depository insurance coverage, it is not practical to insure all deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2019

NOTE C - RECEIVABLES:

Receivables for the District's General Fund and the aggregated nonmajor funds at June 30, 2019 are as follows:

	General Fund	Nonmajor Funds	Total
Accounts receivable	\$ 51,143	\$ -	\$ 51,143
Intergovernmental receivable	<u>7,222,830</u>	<u>203,471</u>	<u>7,426,301</u>
Total	<u>\$ 7,273,973</u>	<u>\$ 203,471</u>	<u>\$ 7,477,444</u>

NOTE D - CAPITAL ASSETS:

Capital asset activity of the District's Governmental activities for the year ended June 30, 2019 were as follows:

	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
Assets not being depreciated:				
Land	\$ 151,500	\$ -	\$ -	\$ 151,500
Construction in progress	<u>32,148,064</u>	<u>7,184,216</u>	<u>15,293,688</u>	<u>24,038,592</u>
	<u>32,299,564</u>	<u>7,184,216</u>	<u>15,293,688</u>	<u>24,190,092</u>
Capital assets being depreciated:				
Land improvements	2,343,998	-	-	2,343,998
Buildings	18,842,140	15,615,613	-	34,457,753
Equipment	1,293,200	11,439	106,236	1,198,403
Vehicles	499,053	28,857	-	527,910
	<u>22,978,391</u>	<u>15,655,909</u>	<u>106,236</u>	<u>38,528,064</u>
Accumulated depreciation:				
Land improvements	2,260,731	6,569	-	2,267,300
Buildings	13,342,869	516,689	-	13,859,558
Equipment	1,202,382	18,294	103,972	1,116,704
Vehicles	443,843	15,402	-	459,245
	<u>17,249,825</u>	<u>556,954</u>	<u>103,972</u>	<u>17,702,807</u>
Net capital assets being depreciated	<u>5,728,566</u>	<u>15,098,955</u>	<u>2,264</u>	<u>20,825,257</u>
Net capital assets	<u>\$ 38,028,130</u>	<u>\$ 22,283,171</u>	<u>\$ 15,295,952</u>	<u>\$ 45,015,349</u>

Depreciation expense was charged to programs of the primary governmental activities as follows:

Governmental activities	
Support Services	\$ 556,615
Food Service	<u>339</u>
	<u>\$ 556,954</u>

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2019

NOTE D - CAPITAL ASSETS-CONCLUDED:

CONSTRUCTION IN PROGRESS AND COMMITMENTS

At June 30, 2019, the District had significant construction in progress activities within its 2015 Building and Site Fund related to building improvements and remodeling, and equipment acquisitions. The estimated remaining commitments in connection with these active construction projects as of June 30, 2019 are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitments</u>
Elementary School Buildings	\$ 17,849,215	\$ 745,000
Ring Lardner Middle School	7,157,457	-
Niles High School	11,157,582	388,000
Special and Alternative Education Buildings	658,131	500,000
Administration Building	2,421,215	13,860
	<u>\$ 39,243,600</u>	<u>\$ 1,646,860</u>

NOTE E - INTERFUND RECEIVABLES AND PAYABLES:

Interfund balances primarily reflect balances utilized to facilitate appropriate cash flows for operations. The composition of interfund balances as of June 30, 2019 is as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>	
Capital Dev. Fund	\$ <u>148,000</u>	General Fund	\$ <u>148,000</u>

NOTE F - STATE AID ANTICIPATION NOTE:

On August 20, 2018, the District borrowed an aggregate \$4,700,000 through the issuance of state aid anticipation notes from the Michigan Finance Authority. Such notes consisted of a \$3,000,000 State Aid Anticipation Series 2018 A-1 Note with a 1.75% annual interest rate and a \$1,700,000 State Aid Anticipation Series 2018 A-2 Note with a 2.50% annual interest rate. The State Aid Anticipation Series A-1 Note was paid in full prior to June 30, 2019. The State Aid Anticipation A-2 Note matures August 20, 2019. Interest on the state aid anticipation notes amounted to \$105,627 for the year ended June 30, 2019.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2019

NOTE F - STATE AID ANTICIPATION NOTE-CONCLUDED:

	Balance <u>June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2019</u>
Series 2017 A-2	\$ 1,900,000	\$ -	\$ 1,900,000	\$ -
Series 2018 A-1	-	3,000,000	3,000,000	-
Series 2018 A-2	-	1,700,000	-	1,700,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total State Aid Anticipation Notes	\$ <u>1,900,000</u>	\$ <u>4,700,000</u>	\$ <u>4,900,000</u>	\$ <u>1,700,000</u>

NOTE G - GENERAL LONG-TERM DEBT:

The District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Other long-term obligations include severance pay and compensated absences. The following is a summary of the changes in general long-term debt for the year ended June 30, 2019.

	Balance <u>June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2019</u>	<u>Due Within One Year</u>
Bonds payable	\$ 40,409,400	\$ -	\$ 890,700	\$ 39,518,700	\$ 945,700
Severance pay	40,427	-	12,832	27,595	27,595
Compensated absences	136,581	-	8,123	128,458	128,458
	<u>177,008</u>	<u> </u>	<u>20,955</u>	<u>156,053</u>	<u>156,053</u>
	\$ <u>40,586,408</u>	\$ <u> </u>	\$ <u>911,655</u>	\$ <u>39,674,753</u>	\$ <u>1,101,753</u>

General obligation bonds consist of the following at June 30, 2019:

Qualified Zone Academy Bonds dated September 22, 2011, with annual principal payments of \$204,000, and final maturity September 22, 2021.	\$ 612,000
Qualified Zone Academy Bonds dated October 1, 2014, with annual principal payments of \$201,700, and final maturity September 15, 2019.	201,700
2015 School Building and Site Bonds dated August 17, 2015, with annual principal payments ranging from \$540,000 to \$2,590,000, and final maturity May 1, 2045.	<u>38,705,000</u>
	<u>\$ 39,518,700</u>

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2019

NOTE G - GENERAL LONG-TERM DEBT- CONCLUDED:

On September 22, 2011 the District issued \$2,040,000 of Qualified Zone Academy Bonds under Section 54A of the Internal Revenue Code of 1986, as amended and has elected to receive a direct credit from the United States Treasury. Credits, when received, on semi-annual interest payment dates are used to pay all of the interest on the Bonds when due. If for any reason, the District does not receive the tax credit from the Internal Revenue Service within two days of the required interest payment, the District is liable for the interest payments. The District has contracted with the Bank of New York Mellon Trust Company, N.A to service the bond and associated credits.

On October 1, 2014 the District issued \$1,008,500 of Qualified Zone Academy Bonds under Section 54A of the Internal Revenue Code of 1986, as amended and has elected to receive a direct credit from the United States Treasury. Credits, when received, on semi-annual interest payment dates are used to pay all of the interest on the Bonds when due. The registered owner of these bonds is Chemical Bank, Midland, Michigan.

The QZAB Bonds were issued for the purpose of remodeling, equipping, and re-equipping school facilities, in part for energy conservation improvements.

On September 3, 2015 the District issued \$40,070,000 in 2015 School Building and Site Bonds (General Obligation - Unlimited Tax) for the purpose of partially remodeling, furnishing and refurbishing, equipping and re-equipping school facilities; erecting, furnishing and equipping additions to Howard Elementary School and Ring Lardner Middle School; and developing and improving sites. The Bonds will pledge the full faith and credit of the District for payment of the principal and interest thereon and will be payable from ad valorem taxes, which may be levied on all taxable property in the District, without limitation as to rate or amount. Terms of the Bonds require semi-annual interest payments commencing May 1, 2016 through May 1, 2045 at annual interest rates ranging from 3% - 4%, and annual principal payments ranging from \$75,000 - \$2,590,000 through May 1, 2045.

The Bonds shall mature at the following schedule.

	<u>2011 QZAB</u>	<u>2014 QZAB</u>	<u>2015 Building & Site</u>	<u>Total</u>
2020	\$ 204,000	\$ 201,700	\$ 540,000	\$ 945,700
2021	204,000	-	600,000	804,000
2022	204,000	-	665,000	869,000
2023	-	-	735,000	735,000
2024-2028	-	-	4,800,000	4,800,000
2029-2033	-	-	6,750,000	6,750,000
2034-2038	-	-	8,600,000	8,600,000
2039-2043	-	-	10,915,000	10,915,000
2044-2045	-	-	5,100,000	5,100,000
Total	<u>\$ 612,000</u>	<u>\$ 201,700</u>	<u>\$ 38,705,000</u>	<u>\$ 39,518,700</u>

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2019

NOTE H - CONTINGENT LIABILITY - GENERAL LONG-TERM DEBT:

Under the terms of the 2011 Qualified Zone Academy Bonds issued by the District as described in Note G, the District elected to receive a direct credit from the United States Treasury for the semi-annual interest payments. If for any reason, the District does not receive the tax credit from the Internal Revenue Service the District is liable for the interest payments. The following is a summary of estimated future contingent bond interest requirements:

<u>June 30,</u>	<u>Interest</u>
2020	\$ 32,016
2021	18,319
2022	<u>9,160</u>
Total	<u>\$ 59,495</u>

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM:

PLAN DESCRIPTION:

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

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employee's Retirement Act (1980 PA 300 as amended).

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

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

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2019

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM - CONTINUED:

BENEFITS PROVIDED:

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

Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

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

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

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

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2019

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM - CONTINUED:

CONTRIBUTIONS:

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

Employer 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, 2017 valuation will be amortized over a 21 year period beginning October 1, 2017 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2018.

Pension Contribution Rates

<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0 - 4.0%	17.89%
Member Investment Plan	3.0 - 7.0%	17.89%
Pension Plus	3.0 - 6.4%	16.61%
Pension Plus 2	6.20%	13.54%
Defined Contribution	0.0%	19.74%

The District's required contributions to the pension plan for the year ended September 30, 2018 were \$5,385,374.

The schedule below summarizes OPEB contribution rates in effect for fiscal year ended September 30, 2018.

OPEB Contribution Rates

<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Premium Subsidy	3.00%	6.44%
Personal Healthcare Fund (PHF)	0.00%	6.13%

The District's required contributions to the OPEB plan were \$1,261,478 for the year ended September 30, 2018.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2019

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM - CONTINUED:

NET PENSION LIABILITY:

At June 30, 2019, the District reported a liability of \$59,453,833 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September, 2017. 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, 2018, the School District's proportion was 0.19777 percent, which was a decrease of .00616 percent from its proportion measured as of September 30, 2017.

NET OPEB LIABILITY:

At June 30, 2019, the District reported a liability of \$15,448,292 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September, 2017. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2018, the School District's proportion was 0.19434 percent, which was a decrease of .01047 percent from its proportion measured as of September 30, 2017.

DEFERRALS AND PENSION EXPENSE:

For the year ended June 30, 2019, the District recognized pension expense of \$7,500,597. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Difference between expected and actual experience	\$ 275,877	\$ 432,041
Changes of assumptions	13,769,459	-
Net difference between projected and actual earnings on pension plan investments	-	4,065,131
Changes in proportion and differences between the District's contributions and proportionate share of contributions	653,837	1,322,741
District's contributions subsequent to the measurement date	<u>2,238,528</u>	<u>-</u>
Total	<u>\$ 16,937,701</u>	<u>\$ 5,819,913</u>

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2019

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM - CONTINUED:

Contributions subsequent to the measurement date 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2019	\$ 3,912,009
2020	2,713,276
2021	1,629,709
2022	<u>624,266</u>
Total	<u>\$ 8,879,260</u>

DEFERRALS AND OPEB EXPENSE:

For the year ended June 30, 2019, the District recognized OPEB expense of \$581,586. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 2,875,324
Changes of assumptions	1,635,982	-
Net difference between projected and actual earnings on OPEB plan investments	-	593,715
Changes in proportion and differences between the District's contributions and proportionate share of contributions	539	794,564
District's contributions subsequent to the measurement date	<u>1,256,510</u>	<u>-</u>
Total	<u>\$ 2,893,031</u>	<u>\$ 4,263,603</u>

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2019

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM - CONTINUED:

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2019	\$ (625,199)
2020	(625,199)
2021	(625,199)
2022	(504,109)
2023	(247,376)
Total	<u>\$ (2,627,082)</u>

Actuarial Assumptions:

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

Valuation Date	September 30, 2017
Actuarial Cost Method	Entry Age, Normal
Wage Inflation Rate	2.75%
Investment Rate of Return:	
- MIP and Basic Plans	7.05%
- Pension Plus Plan	7.0%
- Pension Plus 2 Plan	6.0%
- OPEB	7.15%
Projected Salary Increases	2.75 - 11.55%, including wage inflation of 2.75%
Cost-of-Living Pension Adjustments	3% Annual Non-Compounded for MIP Members
Healthcare Cost Trend Rate	7.5% Year 1 graded to 3.0% Year 12

Mortality:

Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Active Members: RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2019

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM - CONTINUED:

Other Assumptions:

Opt Out Assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
Survivor Coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
Coverage Election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverages for 1 or more dependents

Notes:

- * Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability and OPEB liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, and rolled forward using generally accepted actuarial procedures, including the experience study.
- * Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [4.5304 for pension plan and 5.6018 for OPEB].
- * Recognition period for assets in years is 5.000.
- * Full actuarial assumptions are available in the 2018 MPSERS Comprehensive Annual Financial Report. found on the ORS website at www.michigan.gov/orsschools.

LONG-TERM EXPECTED RATE OF RETURN:

The long-term expected rate of return on pension and OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan and OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2018, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return *</u>
Domestic equity pools	28.0%	5.7%
Private equity pools	18.0%	9.2%
International equity pools	16.0%	7.2%
Fixed income pools	10.5%	0.5%
Real estate and infrastructure pools	10.0%	3.9%
Absolute return pools	15.5%	5.2%
Short-term investment pools	<u>2.0%</u>	-
	<u>100.0%</u>	

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

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2019

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM - CONTINUED:

Rate of Return:

For the fiscal year ended September 30, 2018, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 11.11%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

For the fiscal year ended September 30, 2018, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 10.75%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate:

A discount rate of 7.05% was used to measure the total pension liability (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan, and 7.15% for the OPEB liability). The discount rate was based on the long term expected rate of return on pension plan investments of 7.05% (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan) and on OPEB plan investments at 7.15%. The projection of cash flows used to determine the discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position and the OPEB plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension liability and OPEB liability.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.0% to 7.05%, depending on the plan option, 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 1.0 percentage point lower or 1.0 percentage point higher.

1% Decrease	Current Discount Rate Assumption	1% Increase
<u>6.05%/6.0%/5.0%</u>	<u>7.05%/7.0%/6.0%</u>	<u>8.05%/8.0%/7.0%</u>
\$78,058,291	\$59,453,833	\$43,996,553

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

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 7.15%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1.0 percentage point lower or 1.0 percentage point higher.

1% Decrease	Current Discount Rate	1% Increase
<u>6.15%</u>	<u>7.15%</u>	<u>8.15%</u>
\$18,545,360	\$15,448,292	\$12,843,279

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2019

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM - CONCLUDED:

Sensitivity of the Net OPEB Liability to Healthcare Cost Trend Rate:

The following presents the District's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is 1.0 percentage point lower or 1.0 percentage point higher.

<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
\$12,706,050	\$15,448,292	\$18,594,203

NOTE J - FUND BALANCES - GOVERNMENTAL FUNDS:

The District has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. Detailed information on fund balances of governmental funds is as follows:

	<u>General Fund</u>	<u>2015 Building and Site Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Nonspendable:				
Inventory	\$ -	\$ -	\$ 48,089	\$ 48,089
Prepaid Items	285,773	-	-	285,773
Total Nonspendable	<u>285,773</u>	<u>-</u>	<u>48,089</u>	<u>333,862</u>
Restricted for:				
Food Service Program	-	-	216,234	216,234
Capital Improvements	-	1,814,189	1,032,110	2,846,299
Debt Service	-	-	1,157,500	1,157,500
Total Restricted	<u>-</u>	<u>1,814,189</u>	<u>2,405,844</u>	<u>4,220,033</u>
Committed for:				
Capital Improvements	-	-	1,374,085	1,374,085
Unassigned	<u>4,323,512</u>	<u>-</u>	<u>-</u>	<u>4,323,512</u>
Total fund balances - governmental funds	<u>\$ 4,609,285</u>	<u>\$ 1,814,189</u>	<u>\$ 3,828,018</u>	<u>\$ 10,251,492</u>

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONCLUDED

Year ended June 30, 2019

NOTE K - INTEREST EXPENSE:

Interest expense of \$1,590,360 as reported on the Statement of Activities for the year ended June 30, 2019 was charged to overall District operations and not to specific activities, as the District considers that its debt impacts multiple activities and allocation is not practical.

NOTE L - REDUCTION OF 2016-17 PUPIL MEMBERSHIP:

In November, 2017, the District received a notice of preliminary determination from the Michigan Department of Education ("MDE") for a field audit performed by the MDE related to the District's Fall, 2016 pupil membership count. The purpose of the audit was to determine whether the Fall, 2016 membership claim was accurate and that the pupil accounting procedures and practices used by the District were adequate to ensure a proper count. The audit determination relates to the District's interpretation of the criteria for counting certain nonpublic school pupils in its Fall, 2016 membership count.

MDE's preliminary determination was that the District's Fall, 2016 pupil membership count was overstated by 246.87 full time equivalent (FTE) students, and MDE has sought state aid reimbursement for the 246.87 FTE revenue received under the state aid formula. In August 2019 the District received an update from MDE. The Fall 2016 and Spring 2017 FTE was adjusted to 249.325. The District has appealed this determination, and is working with MDE and their representatives to resolve this matter.

Management of the District has estimated the revenue loss to be \$1,876,522 after all appeals have been heard. The District has reduced its revenues for the year ended June 30, 2018 by \$1,418,494 and an additional reduction of \$458,028 for June 30, 2019.

NOTE M - UPCOMING PRONOUNCEMENTS:

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

In June, 2017, the GASB issued Statement No. 87, *Leases*, which improves the accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources. The District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the District's financial statements for the year ending June 30, 2021.

REQUIRED SUPPLEMENTAL INFORMATION

NILES COMMUNITY SCHOOLS

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Local sources	\$ 3,699,100	\$ 3,725,820	\$ 3,920,991	\$ 195,171
State sources	33,932,400	33,862,941	33,412,925	(450,016)
Federal sources	2,388,645	2,744,703	2,500,466	(244,237)
Other	746,375	1,162,955	1,138,335	(24,620)
	<u>40,766,520</u>	<u>41,496,419</u>	<u>40,972,717</u>	<u>(523,702)</u>
Expenditures:				
Current:				
Instruction:				
Basic programs	18,324,360	17,474,728	17,333,887	140,841
Added needs	5,336,595	6,465,843	6,367,614	98,229
Adult/community	79,500	76,800	60,717	16,083
Support Services:				
Pupil services	2,572,905	2,834,286	2,765,595	68,691
Instructional staff	2,425,925	2,870,049	2,655,867	214,182
General administration	403,480	440,765	415,333	25,432
School administration	2,544,950	2,628,513	2,602,379	26,134
Business services	290,261	368,881	362,354	6,527
Operations/maintenance	3,518,000	3,641,921	3,571,181	70,740
Transportation	2,581,225	2,519,921	2,339,818	180,103
Other support services	658,215	743,990	685,871	58,119
Athletics	662,600	676,970	636,008	40,962
Capital outlay	14,000	15,000	11,439	3,561
Community services	222,500	240,715	214,208	26,507
Outgoing transfers	-	668,000	668,000	-
Debt Service	322,924	322,924	320,464	2,460
	<u>39,957,440</u>	<u>41,989,306</u>	<u>41,010,735</u>	<u>978,571</u>
Excess (deficiency) of revenues over expenditures	809,080	(492,887)	(38,018)	454,869
Fund Balance, Beginning of Year	<u>4,647,303</u>	<u>4,647,303</u>	<u>4,647,303</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 5,456,383</u>	<u>\$ 4,154,416</u>	<u>\$ 4,609,285</u>	<u>\$ 454,869</u>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM

Determined as of the Plan Year Ended September 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's portion of the net pension liability	.19777%	.20393%	.20467%	.19771%	.19573%
District's proportionate share of the net pension liability	\$ 59,453,833	\$ 52,847,951	\$ 51,063,473	\$ 48,290,806	\$ 43,113,263
District's covered employee payroll	\$ 16,602,416	\$ 16,997,480	\$ 17,698,458	\$ 17,024,519	\$ 17,261,788
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	358%	311%	289%	284%	250%
Plan fiduciary net position as a percentage of the total pension liability	62.36%	64.21%	63.27%	62.92%	66.20%

NILES COMMUNITY SCHOOLS
SCHEDULE OF CONTRIBUTIONS TO THE
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM

Determined as of the Year Ended June 30,

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 5,244,069	\$ 5,347,019	\$ 4,353,649	\$ 4,430,577	\$ 4,300,641
Contributions in relation to statutorily required contributions	\$ 5,244,069	\$ 5,347,019	\$ 4,353,649	\$ 4,430,577	\$ 4,300,641
Contribution deficiency	-	-	-	-	-
School District's covered employee payroll	\$ 17,286,417	\$ 16,604,803	\$ 17,004,492	\$ 17,371,112	\$ 17,098,335
Contributions as a percentage of covered employee payroll	30.34%	32.20%	25.60%	25.51%	25.15%

NILES COMMUNITY SCHOOLS

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM

Determined as of the Plan Year Ended September 30,

	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability	.19434%	.20481%
District's proportionate share of the net OPEB liability	\$ 15,448,292	\$ 18,136,544
District's covered employee payroll	\$ 16,602,416	\$ 16,997,480
District's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	93.05%	106.70%
Plan fiduciary net position as a percentage of the total OPEB liability	42.95%	36.39%

NILES COMMUNITY SCHOOLS
 SCHEDULE OF OPEB CONTRIBUTIONS TO THE
 MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM

Determined as of the Year Ended June 30,

	<u>2019</u>	<u>2018</u>
Statutorily required OPEB contribution	\$ 1,517,389	\$ 1,053,942
OPEB Contributions in relation to statutorily required contributions	\$ 1,517,389	\$ 1,053,942
Contribution deficiency	-	-
School District's covered employee payroll	\$ 17,286,417	\$ 16,604,803
Contributions as a percentage of covered employee payroll	8.78%	6.35%

OTHER SUPPLEMENTAL INFORMATION

NILES COMMUNITY SCHOOLS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS

June 30, 2019

	<u>Nonmajor Food Service Fund</u>	<u>Nonmajor Capital Projects Fund</u>	<u>Nonmajor Bond Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>ASSETS</u>				
Cash and investments	\$ 239,144	\$ 2,258,360	\$ 1,157,500	\$ 3,655,004
Due from other governments	203,471	-	-	203,471
Due from other funds	-	148,000	-	148,000
Inventories	<u>48,089</u>	<u>-</u>	<u>-</u>	<u>48,089</u>
Total Assets	<u>\$ 490,704</u>	<u>\$ 2,406,360</u>	<u>\$ 1,157,500</u>	<u>\$ 4,054,564</u>
 <u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Accounts payable	<u>\$ 226,381</u>	<u>\$ 165</u>	<u>\$ -</u>	<u>\$ 226,546</u>
Total liabilities	<u>226,381</u>	<u>165</u>	<u>-</u>	<u>226,546</u>
Fund balances:				
Non-spendable	48,089	-	-	48,089
Restricted	216,234	1,032,110	1,157,500	2,405,844
Committed	<u>-</u>	<u>1,374,085</u>	<u>-</u>	<u>1,374,085</u>
Total fund balances	<u>264,323</u>	<u>2,406,195</u>	<u>1,157,500</u>	<u>3,828,018</u>
Total Liabilities and Fund Balances	<u>\$ 490,704</u>	<u>\$ 2,406,360</u>	<u>\$ 1,157,500</u>	<u>\$ 4,054,564</u>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2019

	Nonmajor Food Service <u>Fund</u>	Nonmajor Capital Projects <u>Fund</u>	Nonmajor Bond Debt Service <u>Fund</u>	Total Nonmajor Governmental <u>Funds</u>
Revenues:				
Local sources:				
Property taxes	\$ -	\$ 606,485	\$ 2,022,825	\$ 2,629,310
Interest	452	5,842	5,159	11,453
Food sales	270,496	-	-	270,496
Other	20,000	297,467	-	317,467
Total local sources	<u>290,948</u>	<u>909,794</u>	<u>2,027,984</u>	<u>3,228,726</u>
State sources	58,565	-	-	58,565
Federal sources	1,241,426	-	-	1,241,426
Total revenues	<u>1,590,939</u>	<u>909,794</u>	<u>2,027,984</u>	<u>4,528,717</u>
Expenditures:				
Current operations:				
Food service	1,496,325	-	-	1,496,325
Capital outlay	-	548,841	-	548,841
Debt Service:				
Principal repayment	-	191,760	485,000	676,760
Interest expense	-	14,052	1,472,207	1,486,259
Total expenditures	<u>1,496,325</u>	<u>754,653</u>	<u>1,957,207</u>	<u>4,208,185</u>
Excess (deficiency) of revenues over expenditures	94,614	155,141	70,777	320,532
Other Financing Sources:				
Operating transfers in	<u>-</u>	<u>668,000</u>	<u>-</u>	<u>668,000</u>
Excess of revenues and other financing sources over expenditures	94,614	823,141	70,777	988,532
Fund Balances, Beginning of Year	<u>169,709</u>	<u>1,583,054</u>	<u>1,086,723</u>	<u>2,839,486</u>
Fund Balances, End of Year	<u>\$ 264,323</u>	<u>\$ 2,406,195</u>	<u>\$ 1,157,500</u>	<u>\$ 3,828,018</u>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS FUNDS

June 30, 2019

	<u>Capital Development</u>	<u>Building & Site</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and investments	\$ 1,226,085	\$ 1,032,275	\$ 2,258,360
Due from other funds	<u>148,000</u>	<u>-</u>	<u>148,000</u>
Total Assets	<u><u>\$ 1,374,085</u></u>	<u><u>\$ 1,032,275</u></u>	<u><u>\$ 2,406,360</u></u>
 LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	<u>\$ -</u>	<u>\$ 165</u>	<u>\$ 165</u>
Total liabilities	<u>-</u>	<u>165</u>	<u>165</u>
Fund balances:			
Restricted	-	1,032,110	1,032,110
Committed	<u>1,374,085</u>	<u>-</u>	<u>1,374,085</u>
Total fund balances	<u>1,374,085</u>	<u>1,032,110</u>	<u>2,406,195</u>
Total Liabilities and Fund Balances	<u><u>\$ 1,374,085</u></u>	<u><u>\$ 1,032,275</u></u>	<u><u>\$ 2,406,360</u></u>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

CAPITAL PROJECTS FUNDS

Year ended June 30, 2019

	<u>Capital Development</u>	<u>Building & Site</u>	<u>Total</u>
REVENUES:			
Local sources:			
Property taxes	\$ -	\$ 606,485	\$ 606,485
Other	297,467	-	297,467
Interest	<u>2,756</u>	<u>3,086</u>	<u>5,842</u>
Total revenues	<u>300,223</u>	<u>609,571</u>	<u>909,794</u>
EXPENDITURES:			
Capital outlay	86,985	461,856	548,841
Debt Service:			
Principal repayment	-	191,760	191,760
Interest expense	<u>-</u>	<u>14,052</u>	<u>14,052</u>
Total expenditures	<u>86,985</u>	<u>667,668</u>	<u>754,653</u>
Excess (deficiency) of revenues over expenditures	213,238	(58,097)	155,141
OTHER FINANCING SOURCES:			
Operating transfers in	<u>668,000</u>	<u>-</u>	<u>668,000</u>
Excess (deficiency) of revenues and other financing sources over expenditures	881,238	(58,097)	823,141
Fund Balances, Beginning of Year	<u>492,847</u>	<u>1,090,207</u>	<u>1,583,054</u>
Fund Balances, End of Year	<u><u>\$ 1,374,085</u></u>	<u><u>\$ 1,032,110</u></u>	<u><u>\$ 2,406,195</u></u>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS
SCHEDULE OF PRINCIPAL REQUIREMENTS
2011 - QUALIFIED ZONE ACCADEMY BONDS

Year Ending <u>June 30,</u>	Principal <u>September 22</u>
2020	\$ 204,000
2021	204,000
2022	<u>204,000</u>
	<u>\$ 612,000</u>

NILES COMMUNITY SCHOOLS

SCHEDULE OF PRINCIPAL REQUIREMENTS

2014 SCHOOL TECHNOLOGY BONDS
(QUALIFIED ZONE ACADEMY BONDS)

Year Ending <u>June 30,</u>	Principal <u>September 15</u>
2020	\$ <u>201,700</u>

NILES COMMUNITY SCHOOLS

SCHEDULE OF PRINCIPAL AND REQUIREMENTS

2015 BUILDING AND SITE BONDS

Year Ending June 30,	<u>Principal</u>		<u>Interest Requirements</u>		Total <u>Interest</u>	Annual Debt <u>Service</u>
	<u>May 1</u>	<u>November 1</u>	<u>May 1</u>			
2020	\$ 540,000	\$ 728,828	\$ 728,828	\$ 1,457,656	\$ 1,997,656	
2021	600,000	720,728	720,728	1,441,456	2,041,456	
2022	665,000	711,728	711,728	1,423,456	2,088,456	
2023	735,000	701,753	701,753	1,403,506	2,138,506	
2024	805,000	690,728	690,728	1,381,456	2,186,456	
2025	875,000	678,653	678,653	1,357,306	2,232,306	
2026	955,000	665,528	665,528	1,331,056	2,286,056	
2027	1,040,000	651,203	651,203	1,302,406	2,342,406	
2028	1,125,000	635,603	635,603	1,271,206	2,396,206	
2029	1,215,000	618,728	618,728	1,237,456	2,452,456	
2030	1,285,000	598,986	598,986	1,197,972	2,482,972	
2031	1,350,000	577,300	577,300	1,154,600	2,504,600	
2032	1,415,000	550,300	550,300	1,100,600	2,515,600	
2033	1,485,000	522,000	522,000	1,044,000	2,529,000	
2034	1,560,000	492,300	492,300	984,600	2,544,600	
2035	1,635,000	461,100	461,100	922,200	2,557,200	
2036	1,715,000	428,400	428,400	856,800	2,571,800	
2037	1,800,000	394,100	394,100	788,200	2,588,200	
2038	1,890,000	358,100	358,100	716,200	2,606,200	
2039	1,980,000	320,300	320,300	640,600	2,620,600	
2040	2,075,000	280,700	280,700	561,400	2,636,400	
2041	2,180,000	239,200	239,200	478,400	2,658,400	
2042	2,285,000	195,600	195,600	391,200	2,676,200	
2043	2,395,000	149,900	149,900	299,800	2,694,800	
2044	2,510,000	102,000	102,000	204,000	2,714,000	
2045	2,590,000	51,800	51,800	103,600	2,693,600	
	<u>\$ 38,705,000</u>	<u>\$ 12,525,566</u>	<u>\$ 12,525,566</u>	<u>\$ 25,051,132</u>	<u>\$ 63,756,132</u>	



NILES COMMUNITY SCHOOLS
FEDERAL AWARDS
Year Ended June 30, 2019

NILES COMMUNITY SCHOOLS

NILES, MICHIGAN

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REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Niles Community Schools
Niles, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Niles Community Schools (the "District") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 4, 2019, which contained an unmodified opinion on the financial statements of Niles Community Schools. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to October 9, 2019.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the Uniform Guidance, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Scarpone & Co., P.C.

Niles, Michigan
October 9, 2019



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

To Management and the Board of Education
Niles Community Schools
Niles, 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 Niles Community Schools, (the "District"), as of and for the year ended June 30, 2019, 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 9, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Niles Community Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Niles Community Schools' 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 District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

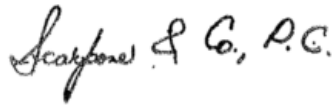
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not 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 Niles Community Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Niles, Michigan
October 9, 2019



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

To Management and the Board of Education
Niles Community Schools
Niles, Michigan

Report on Compliance for Each Major Federal Program

We have audited Niles Community Schools' (the "District") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Compliance Supplement that could have a direct and material effect on each of Niles Community Schools' major federal programs for the year ended June 30, 2019. Niles Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Niles Community Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "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 Niles Community Schools' compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Niles Community Schools complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

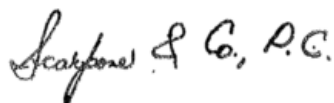
Report on Internal Control Over Compliance

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

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

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

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



Niles, Michigan
October 9, 2019

NILES COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2019

Federal Grantor Pass Through Grantor <u>Program Title and Grant Number</u>	Federal CFDA <u>Number</u>	Pass-Through Grantor's <u>Number</u>	Approved Grant Award <u>Amount</u>	Prior Year(s) Expenditures <u>(Memo Only)</u>
Passed through Michigan Department of Education:				
Child Nutrition Cluster				
National School Lunch Program				
Non-Cash Assistance (commodities):				
Entitlement Commodities	10.555	N/A	\$ 90,748	\$ -
Non-Cash Assistance Subtotal			<u>90,748</u>	<u>-</u>
Cash Assistance:				
National School Breakfast				
NSL Breakfast	10.553	181970	376,238	376,238
NSL Breakfast	10.553	191970	358,287	-
			<u>734,525</u>	<u>376,238</u>
NSL- Section 4 All Lunches	10.555	181960	779,663	779,663
NSL- Section 4 All Lunches	10.555	191960	738,263	-
			<u>1,517,926</u>	<u>779,663</u>
Summer Food Service Program				
SFSP - Operating	10.559	180900	53,929	53,929
SFSP - Administrative	10.559	181900	4,622	4,622
SFSP - Operating	10.559	190900	49,733	-
SFSP - Administrative	10.559	191900	4,395	-
			<u>112,679</u>	<u>58,551</u>
Cash Assistance Subtotal			<u>2,365,130</u>	<u>1,214,452</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			\$ <u>2,455,878</u>	\$ <u>1,214,452</u>

See notes to Schedule of Expenditures of Federal Awards

Accrued Revenue <u>June 30, 2018</u>	<u>Adjustments</u>	Current Year <u>Expenditures</u>	Current Year <u>Receipts</u>	Accrued Revenue <u>June 30, 2019</u>
\$ -	\$ -	\$ 90,748	\$ 90,748	\$ -
<u>-</u>	<u>-</u>	<u>90,748</u>	<u>90,748</u>	<u>-</u>
64,927	-	-	64,927	-
<u>-</u>	<u>-</u>	<u>358,287</u>	<u>297,131</u>	<u>61,156</u>
<u>64,927</u>	<u>-</u>	<u>358,287</u>	<u>362,058</u>	<u>61,156</u>
133,450	-	-	133,450	-
<u>-</u>	<u>-</u>	<u>738,263</u>	<u>617,846</u>	<u>120,417</u>
<u>133,450</u>	<u>-</u>	<u>738,263</u>	<u>751,296</u>	<u>120,417</u>
12,001	-	-	12,001	-
1,020	-	-	1,020	-
-	-	49,733	39,433	10,300
<u>-</u>	<u>-</u>	<u>4,395</u>	<u>3,424</u>	<u>971</u>
<u>13,021</u>	<u>-</u>	<u>54,128</u>	<u>55,878</u>	<u>11,271</u>
211,398	-	1,150,678	1,169,232	192,844
<u>211,398</u>	<u>-</u>	<u>1,150,678</u>	<u>1,169,232</u>	<u>192,844</u>
\$ 211,398	\$ -	\$ 1,241,426	\$ 1,259,980	\$ 192,844
<u>211,398</u>	<u>-</u>	<u>1,241,426</u>	<u>1,259,980</u>	<u>192,844</u>

See notes to Schedule of Expenditures of Federal Awards

NILES COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year ended June 30, 2019

Federal Grantor Pass Through Grantor Program Title and Grant Number	Federal CFDA Number	Pass-Through Grantor's Number	Approved Grant Award Amount	Prior Year(s) Expenditures (Memo Only)
Passed through Michigan Department of Education				
Federal Adult Education ABE Instruction	84.002	181130	\$ 70,000	\$ 41,230
Federal Adult Education ABE Instruction	84.002	191130	25,792	-
			<u>95,792</u>	<u>41,230</u>
Title I, Part A-Improving Basic Programs	84.010	181530	1,033,024	907,895
Title I, Part A-Improving Basic Programs	84.010	191530	1,033,517	-
			<u>2,066,541</u>	<u>907,895</u>
Title III, Limited English	84.365	180580	<u>25,909</u>	<u>9,842</u>
Title II, Part A -Teacher/Principal Training	84.367	180520	233,125	187,510
Title II, Part A -Teacher/Principal Training	84.367	190520	265,105	-
			<u>498,230</u>	<u>187,510</u>
Title IV, Part A - Student Support and Academic Enrichment	84.424	180750	15,296	2,468
	84.424	190750	78,081	-
			<u>93,377</u>	<u>2,468</u>
Total Passed through Michigan Department of Education			<u>2,779,849</u>	<u>1,148,945</u>
Passed through Eau Claire Public Schools:				
Title III, Limited English	84.365		<u>5,007</u>	<u>-</u>
Passed through Berrien RESA:				
IDEA 2017-2018	84.027		1,166,173	1,166,173
IDEA 2018-2019	84.027		1,115,765	-
			<u>2,281,938</u>	<u>1,166,173</u>
IDEA - Preschool Grants 2017-2018	84.173		149,484	149,484
IDEA - Preschool Grants 2018-2019	84.173		101,403	-
			<u>250,887</u>	<u>149,484</u>
Perkins Reimbursement 2017-2018	84.048		38,708	38,708
Perkins Reimbursement 2018-2019	84.048		69,321	-
			<u>108,029</u>	<u>38,708</u>
Total passed through Berrien RESA			<u>2,640,854</u>	<u>1,354,365</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>\$ 5,425,710</u>	<u>\$ 2,503,310</u>

See notes to Schedule of Expenditures of Federal Awards

Accrued Revenue <u>June 30, 2018</u>	<u>Adjustments</u>	Current Year <u>Expenditures</u>	Current Year <u>Receipts</u>	Accrued Revenue <u>June 30, 2019</u>
\$ 9,737	\$ -	\$ -	\$ 9,737	\$ -
-	-	22,145	21,000	1,145
<u>9,737</u>	<u>-</u>	<u>22,145</u>	<u>30,737</u>	<u>1,145</u>
319,910	(220)	-	319,690	-
-	-	962,362	674,332	288,030
<u>319,910</u>	<u>(220)</u>	<u>962,362</u>	<u>994,022</u>	<u>288,030</u>
5,323	-	-	5,323	-
34,508	(5,773)	-	28,735	-
-	-	165,825	94,877	70,948
<u>34,508</u>	<u>(5,773)</u>	<u>165,825</u>	<u>123,612</u>	<u>70,948</u>
2,468	-	-	2,468	-
-	-	46,282	13,274	33,008
<u>2,468</u>	<u>-</u>	<u>46,282</u>	<u>15,742</u>	<u>33,008</u>
371,946	(5,993)	1,196,614	1,169,436	393,131
-	-	5,007	4,642	365
411,651	-	-	411,651	-
-	-	1,115,765	982,000	133,765
<u>411,651</u>	<u>-</u>	<u>1,115,765</u>	<u>1,393,651</u>	<u>133,765</u>
73,830	-	-	73,830	-
-	-	101,403	100,000	1,403
<u>73,830</u>	<u>-</u>	<u>101,403</u>	<u>173,830</u>	<u>1,403</u>
1,415	-	-	1,415	-
-	-	69,321	69,321	-
<u>1,415</u>	<u>-</u>	<u>69,321</u>	<u>70,736</u>	<u>-</u>
486,896	-	1,286,489	1,638,217	135,168
<u>\$ 858,842</u>	<u>\$ (5,993)</u>	<u>\$ 2,488,110</u>	<u>\$ 2,812,295</u>	<u>\$ 528,664</u>

See notes to Schedule of Expenditures of Federal Awards

NILES COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

Year ended June 30, 2019

Federal Grantor Pass Through Grantor <u>Program Title and Grant Number</u>	Federal CFDA <u>Number</u>	Pass-Through Grantor's <u>Number</u>	Approved Grant Award <u>Amount</u>	Prior Year(s) Expenditures <u>(Memo Only)</u>
Passed through Berrien RESA:				
Medicaid Outreach 2017-2018	93.778		\$ 8,079	\$ 8,079
Medicaid Outreach 2018-2019	93.778		<u>12,356</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES			\$ <u>20,435</u>	\$ <u>8,079</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ <u><u>7,902,023</u></u>	\$ <u><u>3,725,841</u></u>

See notes to Schedule of Expenditures of Federal Awards

<u>Accrued Revenue June 30, 2018</u>	<u>Adjustments</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts</u>	<u>Accrued Revenue June 30, 2019</u>
\$ 8,079 <u>-</u>	\$ - <u>-</u>	\$ - <u>12,356</u>	\$ 8,079 <u>12,356</u>	\$ - <u>-</u>
\$ <u>8,079</u>	\$ <u>-</u>	\$ <u>12,356</u>	\$ <u>20,435</u>	\$ <u>-</u>
\$ <u><u>1,078,319</u></u>	\$ <u><u>(5,993)</u></u>	\$ <u><u>3,741,892</u></u>	\$ <u><u>4,092,710</u></u>	\$ <u><u>721,508</u></u>

See notes to Schedule of Expenditures of Federal Awards

NILES COMMUNITY SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2019

NOTE A - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Niles Community Schools under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with 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* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Niles Community Schools, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Niles Community Schools.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, or the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement. Negative amounts (if any) shown on the Schedule represent adjustment 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.

NOTE C - GRANT AUDITOR REPORT:

Management has utilized the Cash Management System (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards. No unreconciled differences have been disclosed by management to the auditor.

NOTE D - NONCASH ASSISTANCE:

The value of noncash assistance received was determined in accordance with the provisions of the Uniform Guidance. The grantee received no noncash assistance during the year ended June 30, 2019 that is not included on the schedule of expenditures of federal awards.

NOTE F - FEDERAL EXPENDITURES:

Federal expenditures are reported as revenue in the following funds in the basic financial statements:

General Fund	\$	2,500,466
Special Revenue Funds - Food Service		<u>1,241,426</u>
Total revenues per financial statements	\$	<u><u>3,741,892</u></u>

NILES COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2019

SECTION I - SUMMARY OF INDEPENDENT AUDITOR'S RESULTS:

Financial Statements:

Type of auditor's report issued: Unmodified

Internal controls 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 controls over major programs:

Material weakness(es) identified? yes x no

Significant deficiency(ies) identified? yes x none reported

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

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

Identification of Major Program

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553	National School Lunch Program - National School Breakfast
10.555	National School Lunch Program - Entitlement Commodities
10.555	National School Lunch Program - National School Lunch
10.559	National School Lunch Program - Summer Food Service Program
84.010	Title I, Part A - Improving Basic Programs
84.027	Special Education - IDEA 2018-2019

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

Auditee qualifies as a low-risk auditee? x yes no

SECTION II - FINANCIAL STATEMENT AUDIT FINDINGS:

None

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS:

None



Members of the Board of Education
Niles Community Schools
Niles, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Niles Community Schools for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 29, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting principles and their application. The significant accounting policies used by Niles Community Schools are described in Note A to the financial statements. We noted no material transactions entered into by Niles Community Schools during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

- Management's estimate of the useful lives of depreciable assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the District's share of the MPERS pension plan net pension liability and other postemployment benefit ("OPEB") plans recorded on the government-wide financial statements as of June 30, 2019 related to GASB Statements No. 68 and 75, respectively.
- Management's estimate of accrued compensated absences is based on balances of earned but unused sick time and personnel policies and employment contracts.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the School District, and business plans and strategies that may affect the risks of material misstatements with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Management's Responsibilities

We have requested certain representations from management that are included in the management representation letter dated October 9, 2019.

Management's Consultations with Other Independent Accountants

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

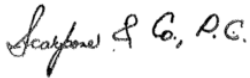
Other Information in Documents Containing Audited Financial Statements

With respect to the supplemental information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplemental information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Education and management of Niles Community Schools and is not intended to be and should not be used by anyone other than these specified parties. We appreciate the opportunity to be of service to you. As always, should you have any questions, please do not hesitate to contact us.

Sincerely,

SCARPONE & CO., P.C.

A handwritten signature in cursive script that reads "Scarpone & Co., P.C.".

James F. Scarpone, CFP, CPA, CVA

Niles, Michigan
October 9, 2019