



**LAWTON COMMUNITY SCHOOLS
STATE OF MICHIGAN, COUNTIES OF VAN BUREN AND KALAMAZOO**

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2018

TABLE OF CONTENTS

	Page No.
Independent Auditors' Report	1
Administration's Discussion and Analysis	2-8
Basic Financial Statements	
District-Wide Financial Statements	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements	
Balance Sheet – Governmental Funds and the Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	11
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	13
Fiduciary Funds	
Statement of Fiduciary Net Position	14
Statement of Changes in Fiduciary Net Position	15
Notes to the Financial Statements	16-35
Required Supplementary Information	
Budget Comparison Schedule – General Fund	36
Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability	37
Schedule of the Reporting Unit's Pension Contributions	38
Schedule of the Reporting Unit's Proportionate Share of the Net OPEB Liability	39
Schedule of the Reporting Unit's OPEB Contributions	40
Notes to the Required Supplementary Information	41
Other Supplementary Information	
Balance Sheet – Non-Major Governmental Funds	42
Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds	43
Schedule of Revenues – General Fund	44
Schedule of Expenditures – General Fund	45-48
Schedule of Changes in Long-Term Debt	49
Schedule of Maturities of Bonded Debt	50-54
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	55-56
Schedule of Findings and Responses	57-58

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Lawton Community Schools, State of Michigan, Counties of Van Buren and Kalamazoo

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 Lawton Community Schools (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Emphasis of Matter – Change in Accounting Principle

As discussed in Note L to the financial statements, the District implemented GASB statement No.75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, the financial statements now recognize the District's unfunded other postemployment benefits (OPEB) as a liability for the first time and more comprehensively and comparably measures the annual costs of OPEB benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary information, as identified in the table of contents, is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Seber Tans, PLLC

Seber Tans, PLC
Kalamazoo, Michigan
October 29, 2018

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Administration's Discussion and Analysis
For the Year Ended June 30, 2018**

District-Wide Financial Statements

The District-wide statements provide a perspective of the District as a whole. These statements use the full accrual basis of accounting similar to private sector companies. There are two District-wide statements: the Statement of Net Position and the Statement of Activities.

The Statement of Net Position combines and consolidates the governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations, regardless of whether they are currently available or not.

Consistent with the full accrual basis of accounting, the Statement of Activities accounts for current year revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the user's analysis of the costs of various District services.

When analyzed together, the two statements help the reader determine whether the District is financially stronger or weaker as a result of the year's activities.

Fund Financial Statements

The fund financial statements focus on individual parts of the District, reporting the District's operation in more detail than the District-wide statements. The fund financial statements are reported on a *modified accrual basis*. Only those assets that are *measurable* and *currently available* are reported. Recognition of liabilities is limited to the extent that there is reasonable expectation that those obligations will be paid with current financial resources.

The fund financial statements are formatted to comply with the legal requirements of the Michigan Department of Education's *Public School Accounting Manual*. In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds. The funds used by Lawton Community Schools include fiduciary funds, debt funds, and a special revenue fund for food service.

Lawton Community Schools is the trustee, or fiduciary, for its student activity funds and for a number of scholarships established for the benefit of our students. These fiduciary activities are reported in separate statements of fiduciary net position. They are excluded from the other financial statements because the District may not use the assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Administration's Discussion and Analysis
For the Year Ended June 30, 2018**

Financial Analysis of the District as a Whole

Summary of Net Position

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets	\$ 5,356,107	\$ 3,950,205
Capital assets, net book value	<u>20,318,796</u>	<u>19,853,822</u>
TOTAL ASSETS	<u>25,674,903</u>	<u>23,804,027</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on pension and OPEB	3,411,149	2,098,912
Deferred amount on debt refunding	<u>20,303</u>	<u>30,455</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>3,431,452</u>	<u>2,129,367</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>29,106,355</u>	<u>25,933,394</u>
LIABILITIES		
Current liabilities	3,889,268	3,564,241
Long-term liabilities	<u>41,599,225</u>	<u>34,552,624</u>
TOTAL LIABILITIES	<u>45,488,493</u>	<u>38,116,865</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred amount on pension and OPEB	<u>997,693</u>	<u>69,512</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>46,486,186</u>	<u>38,186,377</u>
NET POSITION		
Net investment in capital assets	(3,203,917)	(2,447,544)
Restricted	1,659,562	269,791
Unrestricted	<u>(15,835,476)</u>	<u>(10,075,230)</u>
TOTAL NET POSITION	<u>\$ (17,379,831)</u>	<u>\$ (12,252,983)</u>

The 2017 figures have not been updated for the adoption of GASB 75.

The above table provides a summary of the District's net position as of June 30, 2018 and 2017. The net position of the District was \$(17,379,831) at year end June 30, 2018, which is a result of liabilities exceeding asset values.

Net investment in capital assets totaling \$(3,203,917), compares the original cost, less depreciation of the District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due, as well as additional borrowing from the Annual School Bond Qualification & Loan Program to cover bond payments.

The District's proportionate share of the net pension liability is \$15,054,182. The total net position increased by \$285,567 for the year.

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Administration's Discussion and Analysis
For the Year Ended June 30, 2018**

The results of this year's operations for the District as a whole are reported in the table below and it shows what items changed between the fiscal years to change overall net position. Reconciliation of the difference between the increase in net position and the increase in fund balance is on page 13.

Statement of Activities

	<u>2018</u>	<u>2017</u>
REVENUES		
Program revenues:		
Charges for services	\$ 263,600	\$ 266,062
Operating grants	1,482,117	1,405,577
General revenues:		
Property taxes	3,002,295	2,915,283
State foundation allowance	7,204,157	7,118,031
Other	50,228	30,503
TOTAL REVENUES	<u>12,002,397</u>	<u>11,735,456</u>
 EXPENSES		
Instruction and instructional support	6,180,640	5,992,821
Support services	3,406,039	3,272,138
Food services	579,711	578,273
Interest	638,278	647,207
Capital Outlay	58,026	106,024
Depreciation (unallocated)	854,136	804,369
TOTAL EXPENSES	<u>11,716,830</u>	<u>11,400,832</u>
 CHANGE IN NET POSITION	 <u>\$ 285,567</u>	 <u>\$ 334,624</u>

The 2017 figures have not been updated for the adoption of GASB 75.

In fiscal year 2018, the District received just over 85% of its general revenue from State School Aid and local property taxes, which is typical. The remaining revenue comes from the Athletic Program, Federal Title and Medicaid programs and the local Intermediate School District grant programs.

Most of the State of Michigan State School Aid is unrestricted and based on three variables:

1. State of Michigan State School Aid Act per student foundation allowance
2. Student enrollment calculated by blending 90% of the current year fall count and 10% of the prior school year's February count
3. The District's non-homestead property tax levy

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Administration's Discussion and Analysis
For the Year Ended June 30, 2018**

Per Student Foundation Allowance

Annually as part of its budget process, the Michigan legislature announces a dollar amount for the per pupil foundation allowance for each public school student in the State. The per pupil foundation allowance increased again in fiscal year 2018 to \$7,631, from \$7,511 per student in fiscal year 2017. In addition to the per pupil foundation allowance, the State also provided the following categorical funds: At-Risk, Early Literacy Instruction, Computer Adaptive Tests, Dual Enrollment Incentives, and First Robotics.

Student Enrollment

The District's student enrollment for fall of 2017-2018 was finalized at 986.74 students (FTE), which represented a decrease in enrollment from the prior year. The actual fall 2017-2018 count was slightly less than what was projected during the spring budget process, by 5 students. The count decrease from the prior year was anticipated and due to losses in the Lawton Accelerated Academic Center (LAAC) program and a smaller incoming Kindergarten class replacing a larger graduating class. The following table summarizes fall student enrollments in the past five years:

September	K-5	6-8	9-12*	Total
2013	421	232	345	998
2014	405	219	364	988
2015	412	216	367	995
2016	409	236	362	1,007
2017	410	251	326	987

Fall 2018-2019 student count is projected at 972, which is slightly lower than 2017-2018 and again anticipated because of an incoming Kindergarten class projected to be smaller than the 2018 graduating class.

*Includes Lawton Accelerated Academic Center students.

Property Taxes Levied for General Operations

In fiscal year 2017-2018, the District levied 18 mills of property taxes for operations (General Fund) on non-homestead properties. Under Michigan law, the tax levy is based on the taxable valuation of properties. The annual taxable value increase in property is capped at the lesser of the rate of the prior year's Consumer Price Index increase or 5%, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, theoretically 50% of the market value. The following summarizes the local tax revenues in dollars, and as a percent of all General Fund revenues for the past five years:

Fiscal Year	Non-Homestead Tax Levy	% of General Fund Revenue
2013-2014	\$1,043,320	12.6
2014-2015	\$1,074,915	12.7
2015-2016	\$1,129,854	12.6
2016-2017	\$1,085,051	11.7
2017-2018	\$1,143,251	12.1

**Lawton Community Schools
 State of Michigan, Counties of Van Buren and Kalamazoo
 Administration's Discussion and Analysis
 For the Year Ended June 30, 2018**

Local Property Tax History

In fiscal year 2017-2018, the non-homestead property tax levy increased just over 5% from the prior year. After decreasing in the prior year, taxable values rebounded due to the continued improvement in the economy, particularly the local housing market.

Capital Assets

As part of a solid financial plan, the District commits funds each year to the maintenance, repair and replacement of its capital assets. The general fund has committed \$281,396 of fund balance for capital expenditures as of June 30, 2018. The District also continues to maintain a complete inventory of physical assets to ensure that asset values are as current as possible. From this information, the District updates inventory records annually in order to continue to accurately report the value of physical assets.

Long-Term Debt

The District issued a new bond under the Qualified Zone Academy Bonding (QZAB) program for \$2.6 million. The issue was a performance contracting bond and the funds were used to upgrade indoor and outdoor lighting district wide and install a new HVAC system in the Elementary building. Under the QZAB program, this issue is a 0% interest loan. Principal will be paid back over the next 15 years, with the net cost to the district being the principal payment less energy cost savings realized annually due to those facility upgrades.

While the District continued to make significant principal payments on its existing long-term obligations during the year, the net result to long-term debt is a principal balance increase to \$23.5 million, from \$22.3 million, at 2018 fiscal year-end due to the addition of the QZAB. The District will continue to borrow from the Annual School Bond Qualification & Loan Program to make bond payments, but continues to recognize long-term savings from the refunding of two bonds that took place in fiscal years 2015 and 2016.

Original versus Amended Budget

The Uniform Budget Act of the State of Michigan requires that a local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. The projected budget for 2017-2018 was originally approved on June 19, 2017, and amended on February 19, May 21 and June 25, 2018.

General Fund Revenues

Total revenues – final amended budget	\$ 9,466,168
Total revenues – original budget	<u>9,276,766</u>
	<u>\$ 189,402</u>

The increase in revenue from the original budget was largely due to an increase in Unfunded Actuarial Accrued Liability (UAAL) funds received from the State of Michigan through State Aid. UAAL funds are however, restricted revenue and is paid out equally in expense. The final Title I allocation was actually lower than budgeted and local revenues were higher due to increased earnings on savings and receipt of local grant funds.

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Administration's Discussion and Analysis
For the Year Ended June 30, 2018**

General Fund Expenditures

Total expenditures/other financing uses – final amended budget	\$	9,489,559
Total expenditures/other financing uses – original budget		<u>9,483,691</u>
	\$	<u>5,868</u>

Fiscal year 2018 was typical of any budget year with various line item increases and decreases, but the result was an overall increase of \$5,868 from budgeted expenditures. There were corresponding increases in expenses to match the increases in revenues in the grant and restricted programs mentioned above but these increases were offset with decreases from what was budgeted for capital expenses and salaries and benefits due to staff adjustments.

Economic Factors and Next Year's Budget and Rates

The economy in Michigan is considered as recovered from the recession of nearly 10 years ago. Factors that have improved, that are important to the funding and operation of schools are taxable values, housing and commercial growth and unemployment rates. The main system for funding schools remains the receipt of State School Aid funds based on a per pupil foundation allowance, times a blended number determined to be the district student count. Many factors, including political factors, often influence the per pupil amount that is determined by the State each year. The political climate in Michigan is fairly stable at this time with no new or controversial issues on the horizon. This can indicate that school funding will at least remain stable, if not include some regular percentage increase for the next fiscal year.

Maximizing our student count continues to be a goal we need to achieve in order to maximize district revenue. School of Choice is a large factor influencing student enrollment. Online learning remains a way to get an education and public schools are being forced to compete in that business, or lose students. This educational option has assisted the District in keeping its high priority of being proactive in retaining students, as well as attracting new students in order to maximize State School Aid revenues.

On the expenditure side, there are always challenges with ever-increasing costs. The District continues to be diligent in monitoring for efficiency in operations to combat increases in expense. The District also monitors the status of effects from the Affordable Care Act as well as MPSRS reform, and how those costs could impact the budget. Controlling operational costs allows the District to utilize funds for instructional programming, such as the recently implemented Project Lead the Way program, and to stay on the cutting-edge with technology.

The District plans to realize lower operational costs with the implementation of a performance bond for energy efficiencies. The District could also realize lower operational costs with the passage of an upcoming bond proposal in May 2019 that would allow for upgrades to facilities.

In other business, during fiscal year 2018 the District negotiated a three-year contract with the Lawton Education Support Personnel Association (LESPA) and will begin negotiations with the Lawton Education Association (LEA) in fiscal year 2019.

The District continues its financial diligence and conservative planning and purchasing in order to accomplish its goal of being fiscally responsible to taxpayers while providing quality education for its students, as well as maintaining its facilities. The District has developed a strategic plan that will guide it through several years of operations, further diligently planning the use of its resources.

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Administration's Discussion and Analysis
For the Year Ended June 30, 2018**

Requests for Information

This financial report is designed to provide our citizens, taxpayers, parents, students, staff, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Additional detail, including the required Budget and Salary Compensation Transparency Reporting, is available on the District's website (www.lawtoncs.org). Questions concerning this report or requests for additional information should be addressed to Superintendent Chris Rice at crice@lawtoncs.org.

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
District-Wide Statement of Net Position
June 30, 2018

ASSETS	Governmental Activities
Current Assets	
Cash	\$ 1,116,055
Investments	2,782,453
Due from other governments	1,448,008
Inventory	9,591
Total Current Assets	<u>5,356,107</u>
Property and Equipment	
Capital assets, net of accumulated depreciation	<u>20,318,796</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount related to pensions	3,390,538
Deferred amount related to other postemployment benefits	20,611
Deferred amount on debt refunding	20,303
Total Deferred Outflows of Resources	<u>3,431,452</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 29,106,355</u>
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 236,000
Salaries payable and related withholdings	759,517
Accrued interest	439,450
Current maturities of bonds payable	2,454,301
Total Current Liabilities	<u>3,889,268</u>
Bonds Payable, net of current maturities	21,088,715
Net Pension Liability	15,054,182
Net Other Postemployment Benefits Liability	5,131,328
Compensated Absences	<u>325,000</u>
Total Liabilities	<u>45,488,493</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred amount related to pensions	824,216
Deferred amount related to other postemployment benefits	173,477
Total Liabilities and Deferred Inflows of Resources	<u>\$ 46,486,186</u>
NET POSITION (DEFICIT)	
Net investment in capital assets	(3,203,917)
Restricted for:	
Capital projects	1,365,605
Debt	145,019
Food service	148,938
Unrestricted	(15,835,476)
Total Net Deficit	<u>\$ (17,379,831)</u>
Total Liabilities and Net Assets	<u>\$ 29,106,355</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
District-Wide Statement of Activities
For the Year Ended June 30, 2018**

	<u>Expenses</u>	<u>Program Revenue</u>		<u>Governmental Activities Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Service</u>	<u>Operating Grants</u>	
Functions/Programs				
Governmental activities:				
Instruction & instructional support	\$ (6,180,640)	\$ 618	\$ 1,050,239	\$ (5,129,783)
Support services	(3,406,039)	66,867	-	(3,339,172)
Food services	(579,711)	196,115	431,878	48,282
Interest on long-term debt	(638,278)	-	-	(638,278)
Capital outlay	(58,026)	-	-	(58,026)
Depreciation (unallocated)	(854,136)	-	-	(854,136)
Total Governmental Activities	\$ (11,716,830)	\$ 263,600	\$ 1,482,117	\$ (9,971,113)
GENERAL REVENUES:				
Taxes:				
Property taxes, levied for general obligations				\$ 1,102,736
Property taxes, levied for debt service				1,899,559
Local stabilization funds, debt service				11,384
State of Michigan aid, unrestricted				7,204,157
Donations and other general revenue				7,618
Interest and investment earnings				31,226
Total General Revenues				<u>10,256,680</u>
CHANGE IN NET POSITION				285,567
Net Position, Beginning of Year, as restated				<u>(17,665,398)</u>
Net Position, End of Year				<u>\$ (17,379,831)</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Balance Sheet - Governmental Funds and the Reconciliation of the
Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2018

	General	2017 Capital Projects	Nonmajor Govern- mental	Total Govern- mental
ASSETS				
Cash	\$ 464,382	\$ 365,605	\$ 286,068	\$ 1,116,055
Investments	1,782,453	1,000,000	-	2,782,453
Due from other governments	1,442,647	-	5,361	1,448,008
Inventory	-	-	9,591	9,591
Total Assets	<u>\$ 3,689,482</u>	<u>\$ 1,365,605</u>	<u>\$ 301,020</u>	<u>\$ 5,356,107</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 228,937	\$ -	\$ 7,063	\$ 236,000
Salaries payable and related withholdings	759,517	-	-	759,517
Total Liabilities	<u>988,454</u>	<u>-</u>	<u>7,063</u>	<u>995,517</u>
Fund Balances				
Nonspendable	-	-	9,591	9,591
Restricted for:				
Capital projects	-	1,365,605	-	1,365,605
Debt	-	-	145,019	145,019
Food service	-	-	89,347	89,347
Committed for:				
Capital expenditures	281,396	-	-	281,396
Food service	-	-	50,000	50,000
Unassigned	2,419,632	-	-	2,419,632
Total Fund Balances	<u>2,701,028</u>	<u>1,365,605</u>	<u>293,957</u>	<u>4,360,590</u>
Total Liabilities & Fund Balances	<u>\$ 3,689,482</u>	<u>\$ 1,365,605</u>	<u>\$ 301,020</u>	<u>\$ 5,356,107</u>
Reconciliation of the balance sheet - governmental funds to the statement of net position:				
Total governmental fund balances				\$ 4,360,590
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:				
The cost of the capital assets is	35,815,909			
Accumulated depreciation is	<u>(15,497,113)</u>			20,318,796
Deferred outflows of resources from resulting from debt refunding				20,303
Deferred inflows related to other postemployment benefits				(173,477)
Deferred inflows related to pension				(824,216)
Deferred outflows related to other postemployment benefits				20,611
Deferred outflows related to pension				3,390,538
Long term liabilities that are not due and payable in the current period and are not reported in the funds:				
Net other postemployment liability				(5,131,328)
Net pension liability				(15,054,182)
Bonds payable				(23,543,016)
Compensated absences				(325,000)
Accrued interest is not included as a liability in governmental funds				<u>(439,450)</u>
Net Position of Governmental Activities				<u>\$ (17,379,831)</u>

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds
For the Year Ended June 30, 2018

	<u>General Fund</u>	<u>2017 Capital Projects</u>	<u>Nonmajor Govern- mental</u>	<u>Total Govern- mental</u>
REVENUES				
Local sources	\$ 1,197,839	\$ -	\$ 2,095,674	\$ 3,293,513
Intermediate sources	278,917	-	-	278,917
State sources	7,773,136	-	32,983	7,806,119
Federal sources	202,343	-	410,279	612,622
Interest	22,085	8,005	1,136	31,226
Total Revenues	<u>9,474,320</u>	<u>8,005</u>	<u>2,540,072</u>	<u>12,022,397</u>
EXPENDITURES				
Education				
Instruction	5,927,372	-	-	5,927,372
Support services	3,406,039	-	-	3,406,039
Food service	-	-	579,711	579,711
Capital outlay	119,736	1,257,400	-	1,377,136
Debt service				
Principal	-	-	2,260,000	2,260,000
Interest	-	-	492,358	492,358
Total Expenditures	<u>9,453,147</u>	<u>1,257,400</u>	<u>3,332,069</u>	<u>14,042,616</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>21,173</u>	<u>(1,249,395)</u>	<u>(791,997)</u>	<u>(2,020,219)</u>
OTHER FINANCING SOURCES				
Proceeds from bond issue	-	2,615,000	-	2,615,000
Proceeds from school bond loan fund	-	-	836,163	836,163
Total Other Financing Sources	<u>-</u>	<u>2,615,000</u>	<u>836,163</u>	<u>3,451,163</u>
Net Change in Fund Balances	21,173	1,365,605	44,166	1,430,944
Fund Balances, Beginning of Year	<u>2,679,855</u>	<u>-</u>	<u>249,791</u>	<u>2,929,646</u>
Fund Balances, End of Year	<u>\$ 2,701,028</u>	<u>\$ 1,365,605</u>	<u>\$ 293,957</u>	<u>\$ 4,360,590</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2018

Net change in fund balance - total governmental funds		\$ 1,430,944
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense	(854,136)	
Capital outlay	<u>1,319,110</u>	464,974
Amortization of discount on bonds payable. Bond obligations payable are not recognized in governmental funds until paid. Accordingly, discounts and the related amortization to interest expense is not recorded in the governmental funds but is reported as a reduction to interest expense in the statement of activities.		(36,864)
Premium recognized as a result of bond refunding		16,832
Amortization of deferred loss on refunding of bonds. Deferred inflows or deferred outflows resulting from a refunding of bonds is not recorded on the governmental funds but is amortized as interest expense in the statement of activities.		(10,152)
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.		(115,736)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term bonds payable).		2,260,000
Decrease in compensated absence payable is reported in the statement of activities when incurred; it is not reported in governmental funds until paid.		25,000
Repayment of net pension liability is an expenditure in the governmental funds, but not in the statement of activities (where it reduces net pension liability).		(406,489)
Repayment of net other postemployment benefit liability is an expenditure in the governmental funds, but not in the statement of activities (where it reduces net pension liability).		128,221
Payments of promises to give are recognized in governmental funds as income when received, but not in the statement of activities (where it reduces promises receivable).		(20,000)
Proceeds from bond issuance is revenue in the governmental funds, but not in the statement of activities (where it increases long-term bonds payable).		<u>(3,451,163)</u>
Change in Net Position of Governmental Activities		<u>\$ 285,567</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Statement of Fiduciary Net Position
June 30, 2018

	<u>Private Purpose – Scholarships</u>	<u>Agency – Student Activities</u>	<u>Total</u>
ASSETS			
Cash	\$ 3,784	\$ 114,745	\$ 118,529
Investments	15,711	10,000	25,711
Total Assets	<u>19,495</u>	<u>124,745</u>	<u>144,240</u>
LIABILITIES			
Due to student groups	-	124,745	124,745
NET POSITION			
Restricted for scholarships	<u>\$ 19,495</u>	<u>\$ -</u>	<u>\$ 19,495</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

**Lawton Community Schools
 State of Michigan, Counties of Van Buren and Kalamazoo
 Statement of Changes in Fiduciary Net Position
 For the Year Ended June 30, 2018**

	<u>Private Purpose – Scholarships</u>
ADDITIONS	
Interest	\$ 140
CHANGE IN NET POSITION	140
Net Position, Beginning of Year	<u>19,355</u>
Net Position, End of Year	<u>\$ 19,495</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Notes to the Financial Statements
For the Year Ended June 30, 2018

NOTE A – Summary of Significant Accounting Policies

The accounting policies of Lawton Community Schools (the District) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the District.

Reporting Entity

The District is an independent entity with an elected Board of Education. The Board has complete oversight responsibility and is responsible for all financial matters except property tax assessment and collection, which is handled by the cities and townships. The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, there are no component units that are included in this report.

District-Wide Financial Statements

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

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All 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 is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenue are reported instead as general revenue.

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

As a general rule, the effect of inter-fund 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 and fund balance are available, the District's policy is to first apply restricted resources. When an expense is incurred for purposes which amounts in any of the unrestricted fund balance classifications could be used, it is the District's policy to spend funds in this order: committed, assigned, and unassigned.

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Notes to the Financial Statements
For the Year Ended June 30, 2018

NOTE A – Summary of Significant Accounting Policies (Continued)

Fund Financial Statements

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

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:

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

The 2017 Capital Projects Fund is used to record interest, other revenue for payment, and expenses associated with energy conservation purposes and capital expenditures related to energy conservation.

Additionally, the District reports the following fund types:

The 2010, 2013, 2015A and 2015B Debt Service Funds are used to record tax, interest, and other revenue, and for payment of principle, interest and other expenditures on long-term debt.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The District maintains full control of these funds. The School Service Fund maintained by the District is the Food Service Fund.

Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary Fund net position and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The District presently maintains one Agency Fund (Student Activities 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 students and parents. The District also maintains two Private Purpose Funds (Scholarship Funds) that is restricted to the payment of scholarships. These funds are segregated and held in trust for the payment of student scholarships.

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Notes to the Financial Statements
For the Year Ended June 30, 2018**

NOTE A – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Position or Equity

Deposits and Investments

Cash and cash equivalents 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.

Receivables and Payables

In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from 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; accordingly, no allowance for uncollectible amounts is recorded. Taxes are levied on December 1 and are collected through February 28 by various local units for the District. The local units then remit to the District any delinquent real property taxes by June 30.

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 generally 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 revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Capital Assets

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

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

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

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Notes to the Financial Statements
For the Year Ended June 30, 2018**

NOTE A – Summary of Significant Accounting Policies (Continued)

Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of financial position or balance sheet will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period and will not be recognized as an outflow of resources until then.

The District has several items that qualify for reporting in these categories and are reported in the district-wide financial statement of net position. These items correspond to the District's net pension liability and are related to differences between expected and actual experience, changes in assumptions, differences between projected and actual pension plan investment earnings, and contributions made subsequent to the measurement date. These amounts are deferred and recognized as an outflow or inflow of resources in the period to which they apply.

Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Pension and Postemployment Benefits Other Than Pensions (OPEB)

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

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Notes to the Financial Statements
For the Year Ended June 30, 2018**

NOTE A – Summary of Significant Accounting Policies (Continued)

Fund Balance

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

Non-spendable fund balance includes amounts either not in a spendable form or legally or contractually required to be maintained intact. The District has categorized prepaid expenses and inventories as non-spendable fund balance.

Restricted fund balance includes amounts that are restricted by externally imposed restrictions of creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. The District reports restricted funds in the debt, 2017 capital project and lunch funds.

Committed fund balance includes amounts that are committed for specific purposes by formal action of the District's Board. A fund balance commitment may be established, modified, or rescinded by the District's Board. The District has committed \$281,396 for capital expenditures.

Assigned fund balance includes amounts that are intended by the District to be used for specific purposes, but are neither restricted nor committed. Amounts may be assigned formal action of the District's Board or a Board Committees or by the Superintendent providing written notice to the Board or a Board Committee during a public meeting.

Unassigned fund balance includes the remaining fund balance after applying the above criteria.

Comparative Data/Reclassifications

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE B – Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. During the year, the budget was amended in a legally permissible manner.

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Notes to the Financial Statements
For the Year Ended June 30, 2018

NOTE B – Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The District's actual expenditures and budgeted expenditures for the funds budgeted have been shown on a functional basis. The approved budgets of the District for these budgeted funds were adopted on the function level.

The following expenditures have been made in excess of the budget classification shown:

<u>Fund Type</u>	<u>Total Appropriated</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund			
Supporting services	\$ 3,252,218	\$ 3,406,039	\$ (153,821)

NOTE C – Deposits and Investments

State statutes and the District's investment policy authorize the District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan; the District is allowed to invest in U.S. Treasury or Agency obligations, U.S. Government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase which mature not more than 270 days after the date of purchase, and mutual funds in investment pools that are composed of authorized investment vehicles. The District's deposits and investments are in accordance with statutory authority. The District utilizes one bank for the deposit of funds. The investment policy adopted by the board in accordance with state statutes has authorized investment in bonds and securities of the United States government, bank accounts and CD's, and the remainder of state statutory authority as listed above.

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

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and cash equivalents	\$ 1,116,055	\$ 118,529	\$ 1,234,584
Investments	2,782,453	25,711	2,808,164
Total	<u>\$ 3,898,508</u>	<u>\$ 144,240</u>	<u>\$ 4,042,748</u>

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

Bank deposits (checking, savings and money market accounts)	\$ 1,234,584
Investments (certificates of deposit)	1,025,711
Investments in cash management funds	1,782,453
	<u>\$ 4,042,748</u>

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Notes to the Financial Statements
For the Year Ended June 30, 2018

NOTE C – Deposits and Investments (Continued)

The District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits. Bank deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of June 30, 2018, \$2,146,756 of the District's bank balance of \$2,396,756 was exposed to custodial credit risk because they were uninsured.

The District believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the District evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk of Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer or other investment holder), the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. State statutes and the District's investment policy do not contain requirements that would limit the exposure to custodial credit risk for investments.

Credit risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. Government are not considered to have credit risk. The District's investment policy does not further limit its investment choices.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The District's policy does not address other ways to minimize interest rate risk.

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Notes to the Financial Statements
For the Year Ended June 30, 2018**

NOTE C – Deposits and Investments (Continued)

Concentration of credit risk

State statutes and the District's investment policy place no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities) that represent 5% or more of the School's total investments are as follows. These investments are not insured by the Federal Deposit Insurance Corporation and are in addition to the uninsured cash deposits disclosed on page 21:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>Rating by Standard & Poor's</u>
Michigan CLASS	Cash Funds (short-term)	\$ 1,782,453	AAAm

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign county could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the District's policy prohibit investment in foreign currency.

Fair Value Measurements

The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 – Quoted prices in active markets for identical securities.
- Level 2 – Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. Securities that are categorized as Level 2 in the hierarchy include, but are not limited to, repurchase agreements, U.S government agency securities, corporate securities, and commercial paper.
- Level 3 – Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs are inputs that reflect the reporting entities own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

The following table summarizes the valuation of the District's financial instruments by the aforementioned pricing categories at June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash Funds (short-term)	<u>\$ -</u>	<u>\$ 1,782,453</u>	<u>\$ -</u>

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Notes to the Financial Statements
For the Year Ended June 30, 2018

NOTE D – Receivables and Unearned Revenue

At June 30, 2018, the District's receivables were reported in the basic financial statements as follows:

<u>Type</u>	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Due from State of Michigan	\$ 1,391,476	\$ 5,361	\$ 1,396,837
GSRP	43,388	-	43,388
Other	7,783	-	7,783
Totals	<u>\$ 1,442,647</u>	<u>\$ 5,361</u>	<u>\$ 1,448,008</u>

Occasionally, governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At June 30, 2018, the District did not have any unearned revenues.

NOTE E – Capital Assets

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

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2018</u>
Cost				
Buildings and improvements	\$ 30,759,932	\$ 1,223,378	\$ -	\$ 31,983,310
Outdoor equipment	787,578	66,735	-	854,313
Furnishings and equipment	1,614,904	28,997	(6,985)	1,636,916
Vehicles and tractors	1,341,370	-	-	1,341,370
	<u>34,503,784</u>	<u>1,319,110</u>	<u>(6,985)</u>	<u>35,815,909</u>
Accumulated Depreciation				
Buildings and improvements	11,676,470	723,573	-	12,400,043
Outdoor equipment	469,047	37,133	-	506,180
Furnishings and equipment	1,508,306	35,496	(6,985)	1,536,817
Vehicles and tractors	996,139	57,934	-	1,054,073
	<u>14,649,962</u>	<u>854,136</u>	<u>(6,985)</u>	<u>15,497,113</u>
Net capital assets	<u>\$ 19,853,822</u>	<u>\$ 464,974</u>	<u>\$ -</u>	<u>\$ 20,318,796</u>

Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Notes to the Financial Statements
For the Year Ended June 30, 2018

NOTE F – Interfund Receivable and Payable

Outstanding balances between funds result mainly from the time lag between dates that 1) interfund goods and services are provided or reimbursed expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made. The District had no interfund receivables or payables as of June 30, 2018.

NOTE G – Long-Term Debt

The District issues bonds, notes and other contractual commitments to provide for the acquisition and construction of major capital facilities. General obligation bonds and advance refunding bonds are direct obligations and pledge the full faith and credit of the District. Other long-term obligations include loans and compensated absences.

Long-term obligation activity is summarized as follows:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Amount due within one year
Government obligation bonds	\$ 19,020,000	2,615,000	\$(2,260,000)	\$ 19,375,000	\$ 2,474,333
Bond issuance discount	(245,511)	-	36,864	(208,647)	(36,864)
Bond issuance premium	75,729	-	(16,832)	58,897	16,832
School bond loan fund	3,481,603	836,163	-	4,317,766	-
Compensated absences	350,000	-	(25,000)	325,000	-
	<u>\$ 22,681,821</u>	<u>\$ 3,451,163</u>	<u>\$ (2,264,968)</u>	<u>\$ 23,868,016</u>	<u>\$ 2,454,301</u>

Long-term debt consisted of the following at June 30, 2018:

Bond issue of 2010 with annual principal payments ranging from \$0 to \$1,100,000 plus interest ranging from 2.0% to 4.0%	\$ 2,120,000
Advance refunding bond issue of 2015B with annual principal payments ranging from \$25,000 to \$1,130,000 plus interest ranging from 2.5% to 3.5%	9,030,000
Advance refunding bond issue of 2015A with annual principal payments ranging from \$730,000 to \$1,140,000 plus interest at 2.0%.	3,300,000
School bond fund loan payable with no fixed payment schedule plus interest ranging from 3.0% to 4.625%	4,317,766
Bond issue of 2013 with annual principal payments ranging from \$0 to \$1,155,000 plus interest ranging from 0.5% to 1.95%	2,310,000
Qualified Zone Academy Bond (QZAB) issue bearing no interest with annual principal payments of \$174,333	2,615,000
Bond issuance discount	(208,647)
Bond issuance premium	58,897
Accumulated sick pay carried over to future years	325,000
Total principal payable	<u>23,868,016</u>
Interest payable	<u>3,385,540</u>
Total long-term debt	<u>\$ 27,253,556</u>

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Notes to the Financial Statements
For the Year Ended June 30, 2018**

NOTE G – Long-Term Debt (Continued)

Future minimum payments of long-term debt for years ended June 30, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 2,474,333	\$ 451,855	\$ 2,926,188
2020	2,514,333	412,771	2,927,104
2021	1,354,333	363,125	1,717,458
2022	1,364,333	339,025	1,703,358
2023	1,374,333	293,300	1,667,633
2024-2028	6,336,665	954,375	7,291,040
2029-2032	3,956,670	204,350	4,161,020
Thereafter	<u>4,317,766</u>	<u>366,739</u>	<u>3,684,505</u>
Subtotal	23,692,766	3,385,540	27,078,306
Accumulated sick pay	<u>325,000</u>	<u>-</u>	<u>325,000</u>
	<u>\$ 24,017,766</u>	<u>\$ 3,385,540</u>	<u>\$ 27,403,306</u>

School Bond Fund Loan

The School Bond Loan Fund payable represents notes payable to the State of Michigan for loans made to the District, as authorized by the 1963 State of Michigan Constitution, as amended by Public Act 92 of 2005, for the purpose of paying principal and interest on general obligation bonds of the District issued for capital expenditures. Interest rates are determined annually by the State Administrative Board. Interest ranging from 3.13 % to 3.22% has been assessed for the year ended June 30, 2018. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below 7 mills. The District is required to levy mills and repay to the State any excess of the amount levied over the bonded debt service requirements.

Deferred Amount on Refunding

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt. The amount is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2020.

NOTE H – Risk Management

The District pays annual premiums to a provider for its property, comprehensive general liability, and school board legal liability insurance coverage.

The District carries commercial insurance for all other risks of loss, including workers' compensation, boiler, fleet, and excess liability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There was no reduction in coverage obtained through insurances during the past fiscal year.

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Notes to the Financial Statements
For the Year Ended June 30, 2018**

NOTE I – Pension Plan and Postemployment Benefits Other Than Pensions (OPEB)

Plan Description

The District participates in the Michigan Public School Employees' Retirement System (MPSERS or the "System"), a state-wide, cost-sharing, multiple-employer defined benefit public employee retirement plan governed by the State of Michigan (the "State") originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of 12 members - 11 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 eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

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

Benefits Provided - Overall

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

Benefits Provided - Pension

Depending on the plan option selected, member retirement benefits for are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.5%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB member 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.

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Notes to the Financial Statements
For the Year Ended June 30, 2018**

NOTE 1 – Pension Plan and Postemployment Benefits Other Than Pensions (OPEB) (Continued)

Benefits Provided – OPEB

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.

Contributions and Funded Status

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

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

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Notes to the Financial Statements
For the Year Ended June 30, 2018**

NOTE 1 – Pension Plan and Postemployment Benefits Other Than Pensions (OPEB) (Continued)

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

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	19.03%
Member Investment Plan	3.0 - 7.0	19.03
Pension Plus	3.0 - 6.4	18.40
Defined Contribution	0.0	15.27

OPEB Contribution Rates

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

Required contributions to the pension and OPEB plan from the District were \$1,362,573 and \$451,128, respectively, for the year ended September 30, 2017.

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

At June 30, 2018, the District reported a liability of \$15,054,182 and \$5,131,328 for its proportionate share of the MPSERS net pension liability and net OPEB liability, respectively. The net pension and OPEB liabilities were measured as of September 30, 2017, and the total liabilities used to calculate the net pension and OPEB liabilities was determined by an actuarial valuation rolled forward from September 2016. The District's proportion of the net pension and OPEB liability was determined by dividing each employer's statutorily required pension and OPEB contributions to the system during the measurement period by the percent of pension and OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was .06%, which is the same as its proportion measured as of September 30, 2016.

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Notes to the Financial Statements
For the Year Ended June 30, 2018

NOTE 1 – Pension Plan and Postemployment Benefits Other Than Pensions (OPEB) (Continued)

For the year ended June 30, 2018, the District recognized pension expense of \$1,776,929 and OPEB expense of \$343,482. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ 130,831	\$ 73,868	\$ -	\$ 54,634
Changes of Assumptions	1,649,305	-	-	-
Net difference between projected and actual earnings on plan investments	-	719,689	-	118,843
Changes in proportion and differences between Employer contributions and proportionate share of contributions	662,030	30,659	1,161	-
District contributions subsequent to the measurement date	948,372	-	19,450	-
Total	\$ 3,390,538	\$ 824,216	\$ 20,611	\$ 173,477

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions and OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension and OPEB liability in the year ended June 30, 2019. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension and OPEB expense as follows:

Deferred (Inflow) and Deferred Outflow of Resources by Year
(To Be Recognized in Future Pension & OPEB Expenses)

<u>Plan Year Ending September, 30</u>	<u>Pension Amount</u>	<u>OPEB Amount</u>
2018	\$ 490,794	\$ (41,661)
2019	763,367	(41,661)
2020	380,785	(41,661)
2021	10,004	(41,661)
2022	-	(5,672)
	<u>\$ 1,644,950</u>	<u>\$ (172,362)</u>

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Notes to the Financial Statements
For the Year Ended June 30, 2018**

NOTE 1 – Pension Plan and Postemployment Benefits Other Than Pensions (OPEB) (Continued)

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2016, for Pension September 20, 2015, for OPEB
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	7.5%
- MIP and Basic Plans (Non-Hybrid):	7.5%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Healthcare Cost Trend Rate:	7.5% Year 1 graded to 3.5% Year 12
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014, valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Other Assumptions:

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

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Notes to the Financial Statements
For the Year Ended June 30, 2018**

NOTE I – Pension Plan and Postemployment Benefits Other Than Pensions (OPEB) (Continued)

Actuarial Assumptions (continued)

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension and OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.5188 for pension and 5.4744 for OPEB
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2017 MPERS Comprehensive Annual Financial Report found on the ORS website at (www.michigan.gov/orsschools).

Long-Term Expected Return on Plan Assets

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.6%
Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	2.0	(0.9)
TOTAL	100.0%	

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

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Notes to the Financial Statements
For the Year Ended June 30, 2018**

NOTE 1 – Pension Plan and Postemployment Benefits Other Than Pensions (OPEB) (Continued)

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension and OPEB plan investment, net of pension and OPEB plan investment expense, was 13.24% and 11.82%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

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

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

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

	1% Decrease (Non- Hybrid/Hybrid)* 6.0/6.5%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 7.0/7.5%	1% Increase (Non-Hybrid/Hybrid)* 8.0/8.5%
Pension	\$19,610,592	\$15,054,182	\$11,217,975
OPEB	\$6,010,269	\$5,131,328	\$4,385,383

Michigan Public School Employees' Retirement System (MPERS) Fiduciary Net Position

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

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Notes to the Financial Statements
For the Year Ended June 30, 2018

NOTE I – Pension Plan and Postemployment Benefits Other Than Pensions (OPEB) (Continued)

Payable to the Michigan Public School Employees' Retirement System (MPSERS)

At June 30, 2018, there were reported payables to MPSERS of \$123,688.

NOTE J – Commitments and Contingencies

Grant Programs

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2018, may be impaired. In the opinion of the District's management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Unemployment

The District is a reimbursing employer to the Michigan Employment Security Agency (MESA) and as such is responsible to pay the MESA for those benefits paid and charged to its account. As of June 30, 2017, appropriate liabilities have been recorded for all claims paid or chargeable by the MESA. However, no provision has been made for future payments that might result from claims in process or unfilled.

NOTE K – Upcoming Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The District is currently evaluating the impact this standard will have on the financial statement when adopted during the District's 2019-2020 fiscal year.

In June 2017, the GASB issued Statement No. 87, *Leases*. The Statement requires recognition of certain lease assets and liabilities that were previously 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 the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The District is currently evaluating the impact this standard will have on the financial statement when adopted during the District's 2020-2021 fiscal year.

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Notes to the Financial Statements
For the Year Ended June 30, 2018**

NOTE L – Adoption of New Accounting Standard/Change in Accounting Principle

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented during the year. The statement requires governments providing other postemployment benefits (OPEB) to recognize their unfunded OPEB obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of OPEB benefits. The net OPEB liability that is recorded on the district-wide statements will be computed differently than the unfunded actuarial accrued liability, using specific parameters set forth by GASB. The statement also enhances the accountability and transparency through revised note disclosures and required supplementary information (RSI). The net OPEB liability recorded in the Statement of Net Position related to the adoption of this standard by the District is \$5,131,328.

NOTE M – Restatement of Beginning Net Position

Beginning net position has been restated for governmental activities due to a change in accounting principle. As a result of this change beginning net position of governmental activities was reduced \$5,412,415 from (\$12,252,983) to (\$17,665,398).

NOTE N – Subsequent Events

Management has evaluated subsequent events through October 29, 2018, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Budget Comparison Schedule - General Fund
For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Fav (Unfav)
	Original	Final		
REVENUES				
Local sources				
Property taxes	\$ 1,178,221	\$ 1,213,593	\$ 1,102,736	\$ (110,857)
Earnings on investments	-	-	22,085	22,085
Other local revenue	42,500	42,291	95,103	52,812
Intermediate sources	261,059	267,676	278,917	11,241
State sources				
Unrestricted school aid	7,033,927	7,174,417	7,204,157	29,740
Restricted school aid	546,059	563,592	568,979	5,387
Federal sources	215,000	204,599	202,343	(2,256)
Total Revenues	<u>9,276,766</u>	<u>9,466,168</u>	<u>9,474,320</u>	<u>8,152</u>
EXPENDITURES				
Education				
Instruction	5,947,934	6,049,035	5,927,372	121,663
Supporting services	3,313,645	3,252,218	3,406,039	(153,821)
Capital outlay	222,112	188,306	119,736	68,570
Total Expenditures	<u>9,483,691</u>	<u>9,489,559</u>	<u>9,453,147</u>	<u>36,412</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (206,925)</u>	<u>\$ (23,391)</u>	<u>\$ 21,173</u>	<u>\$ 44,564</u>

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Schedule of the Reporting Unit's Proportionate
Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan
Last Four Plan Years (ultimately ten plan years will be displayed)
(Amounts were determined as of 9/30 of each plan year)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
A. Reporting unit's proportion of net pension liability (%)	0.05809%	0.05656%	0.05412%	0.05393%
B. Reporting unit's proportionate share of net pension liability	\$ 15,054,182	\$ 14,110,771	\$ 13,218,668	\$ 11,878,292
C. Reporting unit's covered - employee payroll	\$ 4,875,747	\$ 4,870,697	\$ 4,378,787	\$ 4,597,223
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	308.76%	289.71%	301.88%	258.38%
E. Plan fiduciary net position as a percentage of total pension liability	64.21%	63.27%	63.17%	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a compiled, the District presents information for those years which information is available.

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Schedule of the Reporting Unit's Pension Contributions
Michigan Public School Employees Retirement Plan
Last Four Fiscal Years (ultimately ten fiscal years will be displayed)
(Amounts were determined as of 6/30 of each fiscal year)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
A. Statutorily required contributions	\$ 1,362,573	\$ 1,270,040	\$ 1,044,033	\$ 837,523
B. Contributions in relation to statutorily required contributions*	<u>\$ 1,362,573</u>	<u>\$ 1,270,040</u>	<u>\$ 1,044,033</u>	<u>\$ 837,523</u>
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
D. Reporting unit's covered- employee payroll	\$ 4,852,785	\$ 4,822,820	\$ 4,673,239	\$ 4,587,549
E. Contributions as a percentage of covered-employee payroll	28.08%	26.33%	22.34%	18.26%

* Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to MPSERS, which may differ from the statutorily required contributions.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years which information is available.

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Schedule of the Reporting Unit's Proportionate
Share of the Net OPEB Liability
Michigan Public School Employees Retirement Plan
One Plan Year (ultimately ten plan years will be displayed)
(Amounts were determined as of 9/30 of plan year)**

	<u>2017</u>
A. Reporting unit's proportion of net OPEB liability (%)	0.05795%
B. Reporting unit's proportionate share of net OPEB liability	\$ 5,131,328
C. Reporting unit's covered - employee payroll	\$ 4,875,747
D. Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll (%)	105.24%
E. Plan fiduciary net position as a percentage of total OPEB liability	36.39%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years which information is available.

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Schedule of the Reporting Unit's OPEB Contributions
Michigan Public School Employees Retirement Plan
One Fiscal Year (ultimately ten fiscal years will be displayed)
(Amounts were determined as of 6/30 of fiscal year)**

	<u>2018</u>
A. Statutorily OPEB required contributions	\$ 451,128
B. OPEB contributions in relation to statutorily required contributions*	<u>\$ 451,128</u>
C. Contribution deficiency (excess)	<u>\$ -</u>
D. Reporting unit's covered- employee payroll (OPEB)	\$ 4,852,785
E. OPEB contributions as a percentage of covered-employee payroll	9.30%

* Contributions in relation to statutorily required OPEB contributions are the contributions a reporting unit actually made to the OPEB plan, which may differ from the statutorily required contributions.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years which information is available.

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Notes to Required Supplementary Information
For the Year Ended June 30, 2018**

Pension Information

Ultimately 10 years of data will be presented in both of the pension-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became available.

Benefit Changes

There were no changes in benefit terms in 2017.

Changes in Assumptions

In February 2017, MPSERS approved a decrease in the discount rate for the September 30, 2016 annual actuarial valuation of 0.5 percent to 7.00-7.50 percent based on the group.

Covered Payroll

Covered payroll represents payroll on which contributions to the plans are based.

OPEB Information

Ultimately 10 years of data will be presented in both of the OPEB-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became available.

Benefit Changes

There were no changes in benefit terms in 2017.

Changes in Assumptions

There were no changes in benefit terms in 2017.

Covered Payroll

Covered payroll represents payroll on which contributions to the plans are based.

OTHER SUPPLEMENTARY INFORMATION

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Balance Sheet - Non-Major Governmental Funds
June 30, 2018

	Food Service Fund	2010 Debt Service	2013 Debt Service	2015A Debt Service	2015B Debt Service	Total
ASSETS						
Cash	\$ 141,049	\$ 3,221	\$ 63,897	\$ 68,039	\$ 9,862	\$ 286,068
Due from other governments	5,361	-	-	-	-	5,361
Inventory	9,591	-	-	-	-	9,591
Total Assets	\$ 156,001	\$ 3,221	\$ 63,897	\$ 68,039	\$ 9,862	\$ 301,020
LIABILITIES AND FUND BALANCES						
Accounts payable	\$ 7,063	-	-	-	-	\$ 7,063
FUND BALANCES						
Nonspendable	9,591	-	-	-	-	9,591
Restricted for:						
Debt	-	3,221	63,897	68,039	9,862	145,019
Food service	89,347	-	-	-	-	89,347
Committed for:						
Food service	50,000	-	-	-	-	50,000
	<u>148,938</u>	<u>3,221</u>	<u>63,897</u>	<u>68,039</u>	<u>9,862</u>	<u>293,957</u>
Total Liabilities and Fund Balances	\$ 156,001	\$ 3,221	\$ 63,897	\$ 68,039	\$ 9,862	\$ 301,020

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Statement of Revenues, Expenditures and
Changes in Fund Balances - Non-Major Governmental Funds
For the Year Ended June 30, 2018**

	<u>Food Service Fund</u>	<u>2010 Debt Service</u>	<u>2013 Debt Service</u>	<u>2015A Debt Service</u>	<u>2015B Debt Service</u>	<u>Total</u>
REVENUES						
Local sources	\$ 196,115	\$ 32,981	\$ 845,826	\$ 900,308	\$ 120,444	\$ 2,095,674
State sources	21,599	198	5,069	5,395	722	32,983
Federal sources	410,279	-	-	-	-	410,279
Interest	104	8	183	719	122	1,136
Total Revenues	<u>628,097</u>	<u>33,187</u>	<u>851,078</u>	<u>906,422</u>	<u>121,288</u>	<u>2,540,072</u>
EXPENDITURES						
Food service	579,711	-	-	-	-	579,711
Debt service						
Principal	-	-	1,095,000	1,140,000	25,000	2,260,000
Interest	-	84,800	57,658	89,300	260,600	492,358
Total Expenditures	<u>579,711</u>	<u>84,800</u>	<u>1,152,658</u>	<u>1,229,300</u>	<u>285,600</u>	<u>3,332,069</u>
Excess (Deficiency) of Revenues						
Over Expenditures	<u>48,386</u>	<u>(51,613)</u>	<u>(301,580)</u>	<u>(322,878)</u>	<u>(164,312)</u>	<u>(791,997)</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from school bond loan fund	-	51,500	300,822	319,943	163,898	836,163
Total Other Financing Sources (Uses)	<u>-</u>	<u>51,500</u>	<u>300,822</u>	<u>319,943</u>	<u>163,898</u>	<u>836,163</u>
Net Change in Fund Balances	48,386	(113)	(758)	(2,935)	(414)	44,166
Fund Balances, Beginning of Year	<u>100,552</u>	<u>3,334</u>	<u>64,655</u>	<u>70,974</u>	<u>10,276</u>	<u>249,791</u>
Fund Balances, End of Year	<u>\$ 148,938</u>	<u>\$ 3,221</u>	<u>\$ 63,897</u>	<u>\$ 68,039</u>	<u>\$ 9,862</u>	<u>\$ 293,957</u>

**Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Schedule of Revenues - General Fund
For the Year Ended June 30, 2018**

REVENUES

Revenue from local sources	
Property taxes	\$ 1,102,736
Other local revenue	95,103
Earnings on investments	22,085
Total revenue from local sources	<u>1,219,924</u>
Revenue from intermediate school district	<u>278,917</u>
Revenue from state sources	
Unrestricted	
State aid membership	7,204,157
Restricted	
At risk	400,089
Special education	163,311
Teacher technology	5,579
Total restricted	<u>568,979</u>
Total revenue from state sources	<u>7,773,136</u>
Revenue from federal sources	
Title I	160,478
Title II	41,865
Total revenue from federal sources	<u>202,343</u>
Total Revenues	<u>\$ 9,474,320</u>

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Schedule of Expenditures - General Fund
For the Year Ended June 30, 2018

EXPENDITURES

Instruction	
Elementary	
Salaries	\$ 1,308,511
Benefits	958,603
Purchased services	38,569
Other fees and dues	6,908
Supplies, materials, and other	33,935
Total elementary	<u>2,346,526</u>
Middle school	
Salaries	578,460
Benefits	411,075
Purchased services	12,655
Other fees and dues	1,044
Supplies, materials, and other	25,153
Total middle school	<u>1,028,387</u>
High school	
Salaries	740,653
Benefits	530,464
Purchased services	97,157
Other fees and dues	1,273
Supplies, materials, and other	73,344
Total high school	<u>1,442,891</u>
Pre-school	
Salaries	125,006
Benefits	59,722
Purchased services	6,001
Supplies, materials, and other	5,435
Total pre-school	<u>196,164</u>
Special education	
Salaries	333,584
Benefits	175,393
Purchased services	9,036
Supplies, materials, and other	2,822
Total special education	<u>520,835</u>

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Schedule of Expenditures - General Fund (Continued)
For the Year Ended June 30, 2018

Title I and Title II programs	
Salaries	\$ 132,356
Benefits	70,034
Purchased services	19,400
Supplies, materials, and other	587
Total Title I programs	<u>222,377</u>
Alternative education	
Salaries	94,401
Benefits	57,645
Purchased services	17,806
Total alternative education	<u>169,852</u>
Adult education	
Supplies, materials, and other	<u>340</u>
Total instruction	<u>5,927,372</u>
Supporting services	
Pupil guidance services	
Salaries	138,308
Benefits	91,139
Purchased services	860
Supplies, materials, and other	<u>3,065</u>
Total pupil guidance services	<u>233,372</u>
Improvement of instruction	
Salaries	1,800
Benefits	596
Supplies, materials, and other	<u>1,238</u>
Total improvement of instruction	<u>3,634</u>
Library	
Salaries	43,180
Benefits	26,709
Supplies, materials, and other	<u>3,760</u>
Total library	<u>73,649</u>
Curriculum coordinator	
Salaries	38,356
Benefits	22,753
Purchased services	<u>1,526</u>
Total curriculum coordinator	<u>62,635</u>

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Schedule of Expenditures - General Fund (Continued)
For the Year Ended June 30, 2018

Board of education	
Salaries	\$ 700
Purchased services	35,773
Supplies, materials, and other	13,232
Total board of education	<u>49,705</u>
 Executive administration	
Salaries	162,140
Benefits	104,898
Purchased services	1,658
Supplies, materials, and other	2,771
Total executive administration	<u>271,467</u>
 School administration	
Salaries	399,303
Benefits	260,200
Purchased services	2,415
Supplies, materials, and other	1,035
Total school administration	<u>662,953</u>
 Other school administration	
Benefits	2,700
Salaries	30,083
Total other school administration	<u>32,783</u>
 Business and fiscal management	
Salaries	109,899
Benefits	82,661
Purchased services	39,139
Supplies, materials, and other	13,135
Total business and fiscal management	<u>244,834</u>
 Other business services and fees - bond issuance costs	<u>78,450</u>
 Operation and maintenance	
Salaries	289,519
Benefits	172,626
Purchased services	469,288
Supplies, materials, and other	61,248
Equipment	75,818
Total operation and maintenance	<u>1,068,499</u>

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Schedule of Expenditures - General Fund (Continued)
For the Year Ended June 30, 2018

Pupil transportation	
Salaries	\$ 105,217
Benefits	57,144
Purchased services	61,420
Supplies, materials, and other	46,637
Total pupil transportation	<u>270,418</u>
Technologist	
Salaries	21,888
Benefits	13,925
Purchased services	89,989
Supplies, materials, and other	8,393
Total technologist	<u>134,195</u>
Athletics	
Salaries	75,965
Benefits	38,754
Purchased services	81,477
Other fees and dues	11,869
Supplies, materials, and other	675
Equipment	10,705
Total athletics	<u>219,445</u>
Total supporting services	<u>3,406,039</u>
Capital outlay	
Supporting services	119,736
Total capital outlay	<u>119,736</u>
Total Expenditures	<u>\$ 9,453,147</u>

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Schedule of Changes in Long-Term Debt
June 30, 2018

	<u>Balance at July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2018</u>
2013 refunding debt fund	\$ 3,405,000	\$ -	\$ (1,095,000)	\$ 2,310,000
Interest related to 2013 debt fund	121,559	-	(54,458)	67,101
2010 debt fund	2,120,000	-	-	2,120,000
Interest related to 2010 debt fund	466,200	-	(84,800)	381,400
2015A debt fund	4,440,000	-	(1,140,000)	3,300,000
Interest related to 2015A debt fund	220,000	-	(88,800)	131,200
2015B debt fund	9,055,000	-	(25,000)	9,030,000
Interest related to 2015B debt fund	2,699,200	-	(260,100)	2,439,100
QZAB Bond	-	2,615,000	-	2,615,000
School bond loan fund	3,481,603	836,163	-	4,317,766
Interest related to school bond loan	242,976	123,763	-	366,739
Premium on bonds	75,729	-	(16,832)	58,897
Discount on bonds	(245,511)	-	36,864	(208,647)
Accumulated sick pay	350,000	-	(25,000)	325,000
Total	<u>\$ 26,431,756</u>	<u>\$ 3,574,926</u>	<u>\$ (2,753,126)</u>	<u>\$ 27,253,556</u>

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Schedule of Maturities of Bonded Debt
June 30, 2018

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015B REFUNDING BOND ISSUE			
Principal payment due			
Interest payments due			
Interest rate			
Original issue			
Payments due for years ending June 30:			
2019	\$ 25,000	\$ 259,475	\$ 284,475
2020	85,000	258,850	343,850
2021	100,000	256,725	356,725
2022	125,000	254,225	379,225
2023	145,000	251,100	396,100
2024	1,130,000	247,475	1,377,475
2025	1,110,000	219,225	1,329,225
2026	1,090,000	191,475	1,281,475
2027	1,075,000	164,225	1,239,225
2028	1,060,000	131,975	1,191,975
2029	1,045,000	100,175	1,145,175
2030	1,030,000	68,825	1,098,825
2031	1,010,000	35,350	1,045,350
Totals	<u>\$ 9,030,000</u>	<u>\$ 2,439,100</u>	<u>\$ 11,469,100</u>

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Schedule of Maturities of Bonded Debt
June 30, 2018

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015A REFUNDING BOND ISSUE				
Principal payment due	May 1			
Interest payments due	May 1 and November 1			
Interest rate	2.00%			
Original issue	\$6,275,000			
Payments due for years ending June 30:				
2019		\$ 1,120,000	\$ 66,000	\$ 1,186,000
2020		1,100,000	43,600	1,143,600
2021		1,080,000	21,600	1,101,600
Totals		<u>\$ 3,300,000</u>	<u>\$ 131,200</u>	<u>\$ 3,431,200</u>

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Schedule of Maturities of Bonded Debt
June 30, 2018

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010 BOND ISSUE				
Principal payment due	May 1			
Interest payments due	May 1 and November 1			
Interest rate	2.0% to 4.0%			
Original issue	\$5,335,000			
Payments due for years ending June 30:				
2019		\$ -	\$ 84,800	\$ 84,800
2020		-	84,800	84,800
2021		-	84,800	84,800
2022		1,065,000	84,800	1,149,800
2023		1,055,000	42,200	1,097,200
Totals		<u><u>\$ 2,120,000</u></u>	<u><u>\$ 381,400</u></u>	<u><u>\$ 2,501,400</u></u>

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Schedule of Maturities of Bonded Debt
June 30, 2018

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013 REFUNDING BOND ISSUE				
Principal payment due	May 1			
Interest payments due	May 1 and November 1			
Interest rate	0.5% to 1.5%			
Original issue	\$6,990,000			
Payments due for years ending June 30:				
2019		\$ 1,155,000	\$ 41,580	\$ 1,196,580
2020		1,155,000	25,521	1,180,521
Totals		<u>\$ 2,310,000</u>	<u>\$ 67,101</u>	<u>\$ 2,377,101</u>

Lawton Community Schools
State of Michigan, Counties of Van Buren and Kalamazoo
Schedule of Maturities of Bonded Debt
June 30, 2018

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
QZAB BOND ISSUE				
Principal payment due	December 15			
Interest payments due	NA			
Interest rate	0%			
Original issue	\$2,615,000			
Payments due for years ending June 30:				
2019		\$ 174,333	\$ -	\$ 174,333
2020		174,333	-	174,333
2021		174,333	-	174,333
2022		174,333	-	174,333
2023		174,333	-	174,333
2024		174,333	-	174,333
2025		174,333	-	174,333
2026		174,333	-	174,333
2027		174,333	-	174,333
2028		174,333	-	174,333
2029		174,333	-	174,333
2030		174,333	-	174,333
2031		174,333	-	174,333
2032		174,333	-	174,333
2032		174,338	-	174,338
Totals		<u>\$ 2,615,000</u>	<u>\$ -</u>	<u>\$ 2,615,000</u>

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Education
Lawton Community Schools, State of Michigan, Counties of Van Buren and Kalamazoo

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 Lawton Community Schools (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 29, 2018.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as item 2018-001 that we consider to be a material weakness.

Compliance and Other Matters

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

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Seber Tans, PLC

Seber Tans, PLC
Kalamazoo, Michigan

October 29, 2018

**Lawton Community Schools
Schedule of Findings and Responses
For the Year Ended June 30, 2018**

FINDINGS AND RESPONSES

2018-001

Statement of Condition: The District's accounting functions are performed primarily by two individuals.

Cause: Due to the small size of the accounting department, certain receipt, disbursement and reconciliation activities are performed by one individual and are not reviewed by a party outside of the process.

Criteria: The District is responsible for establishing adequate segregation of duties to properly segregate the functions of authorizing transactions, recording transactions, controlling assets, and reviewing transactions.

Effect of Condition: Inadequate segregated duties create additional risk that transactions may be recorded incorrectly or that assets may be misappropriated.

Recommendation: The Board should actively review financial information and limit employees' access to assets. We recommend the Superintendent review bank reconciliations and review disbursement checks prior to them being mailed. We recommend that accounting policies and procedures be documented.

Management's Response: Management continues to be aware of this issue. Due to the size of the District, it is not possible to staff to a level that would satisfy this requirement. The staff continues to employ strategies and techniques that distribute some of the at-risk types of tasks to other personnel in order to create dual control situations.

Specific tasks being distributed are:

Purchase order review and approval:	Superintendent, weekly
Disbursed check review:	Superintendent, weekly
Checks/cash received at Central Office:	Superintendent Secretary, daily
Credit card purchases review:	Superintendent, monthly

Bank reconciliations for all accounts will be scheduled to be reviewed with the Superintendent on a quarterly basis, within a month after the end of the quarter. Additionally, Central Office staff meets bi-monthly to discuss any issues associated with office procedures, including any issues with the above-distributed tasks.

**Lawton Community Schools
Schedule of Findings and Responses
For the Year Ended June 30, 2018**

SECTION IV – PRIOR YEAR FINDINGS

2017-001

Statement of Condition: The District's accounting functions are performed primarily by two individuals.

Cause: Due to the small size of the accounting department, certain receipt, disbursement and reconciliation activities are performed by one individual and are not reviewed by a party outside of the process.

Criteria: The District is responsible for establishing adequate segregation of duties to properly segregate the functions of authorizing transactions, recording transactions, controlling assets, and reviewing transactions.

Effect of Condition: Inadequate segregated duties create additional risk that transactions may be recorded incorrectly or that assets may be misappropriated.

Recommendation: The Board should actively review financial information and limit employees' access to assets. We recommend the Superintendent review bank reconciliations and review disbursement checks prior to them being mailed. We recommend that accounting policies and procedures be documented.

Management's Response: Management continues to be aware of this issue. Due to the size of the District, it is not possible to staff to a level that would satisfy this requirement. The staff continues to employ strategies and techniques that distribute some of the at-risk types of tasks to other personnel in order to create dual control situations.

Specific tasks being distributed are:

Bank reconciliation review:	Superintendent, monthly
Purchase order review and approval:	Superintendent, weekly
Disbursed check review:	Superintendent, weekly
Checks/cash received at Central Office:	Superintendent Secretary, daily
Credit card purchases review:	Superintendent, monthly

Additionally, Central Office staff meets monthly to discuss any issues associated with office procedures, including any issues with the above-distributed tasks.

This finding has not been resolved and is included in the 2018 findings.