

MACKINAW CITY PUBLIC SCHOOLS
REPORT ON FINANCIAL STATEMENTS
JUNE 30, 2016



Baird, Cotter & Bishop, P.C.
SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS
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MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2016

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August 9, 2016

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Mackinaw City Public Schools
Mackinaw City, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mackinaw City Public Schools, Mackinaw City, Michigan as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mackinaw City Public Schools, Mackinaw City, Michigan as of June 30, 2016, 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 – Deficit Fund Balance

As discussed in Note 2.B to the financial statements, Mackinaw City Public Schools has a deficit fund balance in the General Fund. 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 management's discussion and analysis and required supplementary information on pages iii through ix and 32-35 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2016, on our consideration of Mackinaw City Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mackinaw City Public Schools' internal control over financial reporting and compliance.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

This section of Mackinaw City Public Schools' (the "District") annual report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

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

A. Government-Wide Financial Statements

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

The *Statement of Net Position* presents information on all of the District's assets, deferred inflows and outflows of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents the information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future periods.

Both of the government-wide statements distinguish functions of the District that are principally supported by state aid and property taxes (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). The governmental activities of the District include instruction, supporting services, facilities acquisition and food service activities.

B. Fund Financial Statements

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

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

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

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

Fiduciary Funds The District is a trustee, or fiduciary, for assets that belong to other organizations. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

Notes to Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

C. Summary of Net Position

The following schedule summarizes the net position at June 30,

Assets	<u>2016</u>	<u>2015</u>
Current Assets	\$ 154,816	\$ 66,050
Non Current Assets		
Capital Assets	3,774,376	3,747,448
Less Accumulated Depreciation	(2,742,502)	(2,676,173)
Total Non Current Assets	<u>1,031,874</u>	<u>1,071,275</u>
Total Assets	<u>1,186,690</u>	<u>1,137,325</u>
Deferred Outflows of Resources		
Deferred Outflows of Resources Related to the Pension Plan	<u>352,966</u>	<u>326,321</u>

MACKINAW CITY PUBLIC SCHOOLS
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
Liabilities		
Current Liabilities	309,881	339,606
Non Current Liabilities	3,469,896	3,423,715
Total Liabilities	<u>3,779,777</u>	<u>3,763,321</u>
Deferred Inflows of Resources		
Deferred Inflows of Resources Related to the Pension Plan	<u>344,601</u>	<u>374,878</u>
Net Position		
Net Investment in Capital Assets	1,031,874	1,071,275
Restricted for Specific Purposes	352,314	308,616
Unrestricted - (Deficit)	<u>(3,968,910)</u>	<u>(4,054,444)</u>
Total Net Position	<u>\$ (2,584,722)</u>	<u>\$ (2,674,553)</u>

D. Analysis of Financial Position

During the fiscal year ended June 30, 2016, the District's net position increased by \$89,831. A few of the more significant factors affecting net position during the year are discussed below:

1. Depreciation Expense

School districts are required to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net position.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2016, \$80,858 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the year ended June 30, 2016, \$41,457 of the District's expenditures were capitalized and recorded as assets of the District.

The net effect the current year's depreciation and capital asset additions is a decrease in capital assets in the amount of \$39,401 for the year ended June 30, 2016.

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

3. Pension Expense

GASB 68 now requires the District to account for its payments to the Michigan Public School Employees' Retirement System in a manner that has a significant effect on the District's change in net position. Based on various factors, the District may report an increase or decrease in net position depending on whether the District's proportionate share of the net pension liability increases or decreases in any given year. For the year ended June 30, 2016, the District reported an decrease in net position of \$9,931 related to GASB 68, which indicates that the District's proportionate share of the net pension liability decreased by that amount.

E. Results of Operations

For the years ended June 30, the results of operations, on a district-wide basis, were:

	<u>2016</u>	<u>2015</u>
General Revenues		
Property Taxes	\$ 2,102,079	\$ 2,037,355
Investment Earnings	549	221
State Sources	29,103	155,116
Other	8,569	6,169
Total General Revenues	<u>2,140,300</u>	<u>2,198,861</u>
Program Revenues		
Charges for Services	40,170	27,971
Operating Grants	170,198	118,746
Total Program Revenues	<u>210,368</u>	<u>146,717</u>
Total Revenues	<u>2,350,668</u>	<u>2,345,578</u>
Expenses		
Instruction	1,495,837	1,480,859
Supporting Services	633,206	635,949
Community Services	229	0
Facilities Acquisition	28,674	9,974
Food Service Activities	22,033	29,531
Unallocated Depreciation	80,858	94,077
Total Expenses	<u>2,260,837</u>	<u>2,250,390</u>
Change in Net Position	<u>\$ 89,831</u>	<u>\$ 95,188</u>

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

F. Financial Analysis of the District’s Funds

The financial performance of the District as a whole is also reflected in its governmental funds. The following table shows the change in total fund balances of each of the District’s governmental funds:

	<u>Fund Balance</u> June 30, 2016	<u>Fund Balance</u> June 30, 2015	<u>Increase</u> (Decrease) in Fund Balance
Major Funds			
General Fund	\$ (507,379)	\$ (588,172)	\$ 80,793
Sinking Fund	352,261	312,687	39,574
Nonmajor Funds			
Food Service	53	1,929	(1,876)
Total Governmental Funds	<u>\$ (155,065)</u>	<u>\$ (273,556)</u>	<u>\$ 118,491</u>

General Fund – In 2015-2016, the General Fund’s fund balance increased by 85,893. Tax revenues increased for the first time in many years and expenditures decreased as the District is starting to realize the effect of the cuts to various functions that have taken place in recent years.

Sinking Fund – In 2015-2016, the Sinking Fund’s fund balance increased because the District expended less resources from the sinking fund than it collected revenues during the fiscal year. Property taxes collected and minimal interest amounted to \$109,705. Capital outlay expenditures amounted to \$70,131.

Food Service Fund – In 2015-2016, the Food Service Fund’s fund balance decreased slightly, in line with the prior performance of the fund. The General Fund transferred \$5,100 to the Food Service Fund to help pay for necessary expenditures.

G. General Fund Budgetary Highlights

The Uniform Accounting and Budgeting Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2015-2016 fiscal year, the District amended the General Fund throughout the year, with the Board adopting the changes as summarized below. The following schedule shows a comparison of the original General Fund budget, the final amended General Fund budget, and actual totals from operations:

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>
Total Revenues	<u>\$ 2,169,142</u>	<u>\$ 2,283,711</u>	<u>\$ 2,319,853</u>
<u>EXPENDITURES</u>			
Instruction	\$ 1,493,472	\$ 1,579,426	\$ 1,574,480
Supporting Services	625,416	668,379	659,251
Community Services	0	229	229
Total Expenditures	<u>\$ 2,118,888</u>	<u>\$ 2,248,034</u>	<u>\$ 2,233,960</u>

The changes from original budget and final budget resulted from funding amounts from various sources and expenditures related to instruction and supporting services becoming clearer as the year progressed. There were minimal variances between final budgeted amounts and actual amounts.

H. Capital Asset and Debt Administration

1. Capital Assets

At the end of the 2015-2016 fiscal year, the District had invested \$1,031,874 net of depreciation, in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents a net decrease of \$39,401 from the prior fiscal year. Depreciation expense for the year amounted to \$80,858 bringing the accumulation to \$2,742,502 as of June 30, 2016. The District expended \$41,457 on various building and land improvements that were paid from resources within the Sinking Fund.

2. Long-Term Debt

The District's long-term debt is comprised of compensated absences and the net pension liability. The amount accrued for compensated absences decreased \$810 during the year to \$31,890. The net pension liability increased by \$46,991 to \$3,438,006.

I. Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future:

- Currently the District has an approved district elimination plan that has us emerging from deficit in 2018. We have made significant budget reductions that have stabilized our budget.
- Being an "Out of Formula" school district, the District is positively and negatively impacted by our local non-homestead taxes, as taxable values rise or fall. We have seen small incremental increases in Mackinaw Township and Wawatam Townships.

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

- The District is encouraged by some of the business expansion proposals that have been discussed within the community. Any expansion would directly benefit the District financially through increased property tax revenues. However, the status of the Enbridge Pipeline is a matter of concern, as any change would have a significant impact on our budget.
- In addition, it is important that the District continues to monitor local tax tribunal cases. The District must continue to be pro-active and aggressively defend any request for a reduction that lacks merit, as any reduction directly impacts the District financially.

J. Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the Superintendent at 609 West Central Avenue, Mackinaw City, MI 49701.

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MACKINAW CITY PUBLIC SCHOOLS

MACKINAW CITY, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2016

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$	99,339
Accounts Receivable		212
Due from Other Governmental Units		49,674
Prepaid Expenditures		5,591
Total Current Assets		<u>154,816</u>

NON CURRENT ASSETS

Capital Assets		3,774,376
Less Accumulated Depreciation		<u>(2,742,502)</u>
Total Non Current Assets		<u>1,031,874</u>
Total Assets		<u>1,186,690</u>

DEFERRED OUTFLOWS OF RESOURCES

Changes of Pension Assumptions		84,651
District Pension Contributions Subsequent to Measurement Date		250,767
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		<u>17,548</u>
Total Deferred Outflows of Resources		<u>352,966</u>

LIABILITIES

CURRENT LIABILITIES

Accounts Payable		33,933
Salaries and Benefits Payable		275,233
Unearned Revenue		715
Total Current Liabilities		<u>309,881</u>

NON CURRENT LIABILITIES

Compensated Absences		31,890
Net Pension Liability		<u>3,438,006</u>
Total Non Current Liabilities		<u>3,469,896</u>
Total Liabilities		<u>3,779,777</u>

DEFERRED INFLOWS OF RESOURCES

Differences Between Expected and Actual Experience for Pension Plan		11,388
Section 147c Revenue Related to District Pension Contributions		
Subsequent to Measurement Date		93,947
Changes in Proportion and Differences Between District Pension Contributions		
and Proportionate Share of Contributions		<u>239,266</u>
Total Deferred Inflows of Resources		<u>344,601</u>

NET POSITION

Net Investment in Capital Assets		1,031,874
Restricted for Capital Projects		352,261
Restricted for Food Service		53
Unrestricted - (Deficit)		<u>(3,968,910)</u>
TOTAL NET POSITION	\$	<u>(2,584,722)</u>

The notes to the financial statements are an integral part of this statement.

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATING GRANTS & CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
<u>GOVERNMENTAL ACTIVITIES</u>				
Instruction	\$ 1,495,837	\$ 1,210	\$ 112,970	\$ (1,381,657)
Supporting Services	633,206	36,650	44,253	(552,303)
Community Services	229	0	229	0
Facilities Acquisition	28,674	0	0	(28,674)
Food Service	22,033	2,310	12,746	(6,977)
Unallocated Depreciation	80,858	0	0	(80,858)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 2,260,837	\$ 40,170	\$ 170,198	(2,050,469)
<u>GENERAL REVENUES</u>				
Property Taxes - General Purposes				1,992,559
Property Taxes - Capital Projects				109,520
Investment Earnings				549
State Sources				29,103
Other				8,569
Total General Revenues				2,140,300
Change in Net Position				89,831
<u>NET POSITION</u> - Beginning of Year (Deficit)				(2,674,553)
<u>NET POSITION</u> - End of Year (Deficit)				\$ (2,584,722)

The notes to the financial statements are an integral part of this statement.

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2016

	GENERAL FUND	SINKING FUND	NON-MAJOR FOOD SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 62,678	\$ 36,449	\$ 212	\$ 99,339
Accounts Receivable	212	0	0	212
Due from Other Funds	399	315,812	0	316,211
Due from Other Governmental Units	49,434	0	240	49,674
Prepaid Expenditures	5,591	0	0	5,591
TOTAL ASSETS	<u>\$ 118,314</u>	<u>\$ 352,261</u>	<u>\$ 452</u>	<u>\$ 471,027</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 33,933	\$ 0	\$ 0	\$ 33,933
Salaries and Benefits Payable	275,233	0	0	275,233
Due to Other Funds	315,812	0	399	316,211
Unearned Revenue	715	0	0	715
Total Liabilities	<u>625,693</u>	<u>0</u>	<u>399</u>	<u>626,092</u>
 <u>FUND BALANCES</u>				
Nonspendable, Prepaid Expenditures	5,591	0	0	5,591
Restricted for Capital Projects	0	352,261	0	352,261
Restricted for Food Service	0	0	53	53
Unassigned (Deficit)	(512,970)	0	0	(512,970)
Total Fund Balances	<u>(507,379)</u>	<u>352,261</u>	<u>53</u>	<u>(155,065)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 118,314</u>	<u>\$ 352,261</u>	<u>\$ 452</u>	<u>\$ 471,027</u>

The notes to the financial statements are an integral part of this statement.

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION

JUNE 30, 2016

Total Governmental Fund Balances - (Deficit) \$ (155,065)

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	\$ 3,774,376	
Accumulated depreciation is	<u>(2,742,502)</u>	1,031,874

Deferred outflows and inflows of resources related to pensions are applicable
to future periods and therefore, are not reported in the funds.

Changes in Pension Assumptions	84,651
District Pension Contributions Subsequent to Measurement Date	250,767
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	17,548
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	(239,266)
Differences Between Expected and Actual Experience for Pension Plan	(11,388)
Section 147c Revenue Related to District Pension Contributions Subsequent to Measurement Date	(93,947)

Long-term liabilities are not due and payable in the current period and are not
reported in the funds.

Net Pension Liability	(3,438,006)
Compensated Absences	<u>(31,890)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (2,584,722)

The notes to the financial statements are an integral part of this statement.

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

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

YEAR ENDED JUNE 30, 2016

	GENERAL FUND	SINKING FUND	NON-MAJOR FOOD SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>				
Local Sources	\$ 2,038,990	\$ 109,705	\$ 2,311	\$ 2,151,006
State Sources	201,992	0	1,204	203,196
Federal Sources	44,050	0	11,542	55,592
Incoming Transfers and Other Transactions	34,821	0	0	34,821
Total Revenues	<u>2,319,853</u>	<u>109,705</u>	<u>15,057</u>	<u>2,444,615</u>
<u>EXPENDITURES</u>				
Instruction				
Basic Programs	1,453,604	0	0	1,453,604
Added Needs	120,876	0	0	120,876
Supporting Services				
Pupil	42,431	0	0	42,431
Instructional Staff	28,964	0	0	28,964
General Administration	250,765	0	0	250,765
School Administration	16,513	0	0	16,513
Business	32,049	0	0	32,049
Operation and Maintenance	151,035	0	0	151,035
Pupil Transportation Services	41,098	0	0	41,098
Central	6,118	0	0	6,118
Athletic Activities	90,278	0	0	90,278
Community Services				
Community Activities	229	0	0	229
Facilities Acquisition, Construction and Improvements				
Building Improvement Services	0	70,131	0	70,131
Food Service	0	0	22,033	22,033
Total Expenditures	<u>2,233,960</u>	<u>70,131</u>	<u>22,033</u>	<u>2,326,124</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>85,893</u>	<u>39,574</u>	<u>(6,976)</u>	<u>118,491</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	0	0	5,100	5,100
Transfers Out	(5,100)	0	0	(5,100)
Total Other Financing Sources (Uses)	<u>(5,100)</u>	<u>0</u>	<u>5,100</u>	<u>0</u>
Net Change in Fund Balance	80,793	39,574	(1,876)	118,491
<u>FUND BALANCE</u> - Beginning of Year - (Deficit)	<u>(588,172)</u>	<u>312,687</u>	<u>1,929</u>	<u>(273,556)</u>
<u>FUND BALANCE</u> - End of Year - (Deficit)	<u>\$ (507,379)</u>	<u>\$ 352,261</u>	<u>\$ 53</u>	<u>\$ (155,065)</u>

The notes to the financial statements are an integral part of this statement.

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

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

YEAR ENDED JUNE 30, 2016

Net Change in Fund Balances Total Governmental Funds \$ 118,491

Amounts reported for governmental activities are different because:

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

Depreciation Expense	(80,858)
Capital Outlay	41,457

Governmental funds report District pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

Change in Net Pension Liability	(46,991)
Change in Changes of Pension Assumptions	(40,470)
Change in District Pension Contributions Subsequent to Measurement Date	49,567
Change in Net Difference Between Projected and Actual Earnings on Pension Plan Investments	392,426
Change in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	(239,266)
Change in Differences Between Expected and Actual Experience	(11,388)
Change in Section 147c Revenue Related to District Pension Contributions Subsequent to Measurement Date	(93,947)

Employees' compensated absences are reported on the accrual method in the Statement of Activities, but only recorded as an expenditure when financial resources are used in the

Compensated Absences - Beginning of Year	32,700
Compensated Absences - End of Year	<u>(31,890)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 89,831</u></u>
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The notes to the financial statements are an integral part of this statement.

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

JUNE 30, 2016

	<u>AGENCY FUND</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 19,515
<u>LIABILITIES</u>	
Due to Groups and Organizations	<u>19,515</u>
<u>NET POSITION</u>	<u><u>\$ 0</u></u>

The notes to the financial statements are an integral part of this statement.

MACKINAW CITY PUBLIC SCHOOLS

MACKINAW CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Mackinaw City Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The School District (the "District") is located in Emmet and Cheboygan Counties with its administrative offices located in Mackinaw City, Michigan. The District operates under an elected 7-member board of education which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

B. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the *Statement of Net Position* and the *Statement of Activities*) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The School District does not have any business-type activities or component units.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

MACKINAW CITY PUBLIC SCHOOLS

MACKINAW CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 *Sinking Fund* accounts for the acquisition of capital assets or construction of major capital projects, financed with property tax revenue.

Other Non-Major Funds:

The *Special Revenue (School Service) Fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its food service activities in a special revenue fund.

Additionally, the District reports the following fund type:

Fiduciary funds are accounted for using the accrual method of accounting. Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. This fund is custodial in nature and does not involve measurement of results of operations. Accordingly, it presents only a *Statement of Fiduciary Net Position* and does not present a *Statement of Changes in Fiduciary Net Position*. Fiduciary funds are not included in the government-wide statements.

The District reports the following fiduciary fund:

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

MACKINAW CITY PUBLIC SCHOOLS

MACKINAW CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

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 or segment.

In the government-wide statement of net position, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position are reported in three parts – net investment in capital assets, net of related debt; restricted net position; and unrestricted net position.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The *Statement of Activities* reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues).

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the

MACKINAW CITY PUBLIC SCHOOLS

MACKINAW CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

F. Budgetary Information

1. Budgetary Basis of Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. While all appropriations and encumbrances lapse at year-end, value outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a) In June, the superintendent submits to the school board a proposed operating budget for the fiscal year commencing on July 1.
- b) A public hearing is conducted during June to obtain taxpayer comments.
- c) Prior to June 30, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year, when necessary, to adjust appropriations if it appears that revenues and other financial sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated.
- d) The superintendent is charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.
- e) For purposes of meeting emergency needs of the school district, transfer of appropriations may be made by the authorization of the superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- f) During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.

MACKINAW CITY PUBLIC SCHOOLS

MACKINAW CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

- g) Budgeted amounts are as originally adopted on June 24, 2015, or as amended by the School Board of Education throughout the year.

2. Excess of Expenditures Over Appropriations

Excess of expenditures over appropriations occurred in the following funds:

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
Instruction		
Basic Programs		
High School	\$ 589,735	\$ 591,466
Food Service Fund		
Food Service	21,610	22,033

These overages were funded with greater than anticipated revenues.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Investments

Cash includes amounts in demand deposits.

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the School District to invest as follows:

- (a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States.
- (b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States.

The District's deposits and investments are held separately by several of the School District's funds.

MACKINAW CITY PUBLIC SCHOOLS

MACKINAW CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

2. *Inventory and Prepaid Items*

Inventories are valued at cost. Inventories in the special revenue funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures. At the end of the fiscal year, the District did not report any prepaid items.

3. *Capital Assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

<u>ASSETS</u>	<u>YEARS</u>
Buildings, Building Improvements, and Land Improvement:	10-50 years
Buses and Other Vehicles	7-15 years
Furniture and Other Equipment	2-15 years

4. *Compensated Absences*

It is the District's policy to permit employees to accumulate certain earned but unused benefits. The amount allowable to be compensated for depends on the position and the longevity of the individual employee. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

5. *Long-Term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. As of the end of the fiscal year, the only long-term obligations that District had were compensated absences, as discussed above.

MACKINAW CITY PUBLIC SCHOOLS

MACKINAW CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

6. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has three items that qualify for reporting in this category, all related to the pension plan for its employees. Details can be found in footnote 3.I.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category, all related to the pension plan for its employees. Details can be found in footnote 3.I.

7. *Pension*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public 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.

8. *Net Position Flow Assumption*

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

9. *Fund Balance Flow Assumption*

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

MACKINAW CITY PUBLIC SCHOOLS

MACKINAW CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

10. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The governing board is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

11. Use of Estimates

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

H. Revenues and Expenditures/Expenses

1. State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The local portion of the foundation is funded primarily by non-homestead property taxes. Since the District's property tax collections exceed the state's formula, the foundation grant approach does not apply to the District. Instead, the District uses its locally collected property taxes to fund the District.

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 governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

MACKINAW CITY PUBLIC SCHOOLS

MACKINAW CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

2. Program Revenues

Amounts reported as program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, state foundation aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenue but instead as *general revenues*.

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. Property taxes are assessed as of January 1, and due July 1. The levy becomes delinquent as of February 14 for all taxpayers. After these dates, unpaid taxes are subject to penalties and interest.

For the year ended June 30, 2016, the District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-PRE	17.7634
General Fund - Commercial PPT	5.7634
Sinking Fund - PRE, Non-PRE, Commercial Personal Property	0.7500

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Violations of Legal or Contractual Provisions

Note 1.F.2, on the Excess of Expenditures Over Appropriations, describes a budgetary violation that occurred for the year ended June 30, 2016.

B. Deficit Fund Equity

As of June 30, 2016, the District’s General Fund had a deficit fund balance of \$507,379. State law does not allow any District to operate its General Fund at a deficit. A deficit elimination plan has been filed with and approved by the Michigan Department of Education.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The District’s deposits are all on deposit with Citizens National Bank.

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. As of June 30, 2016, none of the government’s bank balance of \$141,592 was exposed to custodial credit risk because it was all insured and collateralized. Although the District’s investment policy does not specifically address custodial credit risk, the District typically limits its exposure by controlling who holds the deposits and investments.

MACKINAW CITY PUBLIC SCHOOLS

MACKINAW CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Foreign Currency Risk. The District is not authorized to invest in investments which have this type of risk, therefore, it is not addressed in the investment policy.

B. Receivables

Receivables as of year-end for the government's individual major funds and nonmajor, and fiduciary funds in the aggregate; including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Food Service Fund	Total
Receivables			
Accounts	\$ 212	\$ 0	\$ 212
Due from Other Governments	49,434	240	49,674
Total Receivables	<u>\$ 49,646</u>	<u>\$ 240</u>	<u>\$ 49,886</u>

Due from other governments consists of state aid and various state and federal grants.

C. Accrued Liabilities

Accrued liabilities reported by governmental funds at June 30, 2016, were as follows:

	GENERAL FUND
Salaries	\$ 175,457
Employee Benefits	99,776
Total accrued liabilities	<u>\$ 275,233</u>

D. Long-Term Debt

The following is a summary of changes in long-term debt (including current portions) of the District for the year ended June 30, 2016:

	Balance July 1, 2015	Increases	(Decreases)	Balance June 30, 2016	Due Within Year
Compensated Absences	\$ 32,700	\$ 0	\$ (810)	\$ 31,890	\$ 0
Pension Liability	3,391,015	297,758	(250,767)	3,438,006	0
Total	<u>\$ 3,423,715</u>	<u>\$ 297,758</u>	<u>\$ (251,577)</u>	<u>\$ 3,469,896</u>	<u>\$ 0</u>

The annual requirements to amortize the compensated absences and the pension liability are uncertain because it is unknown when the repayments will be made. Compensated absences and the pension liability will be paid by the fund in which the employee worked, including the general fund and other governmental funds.

MACKINAW CITY PUBLIC SCHOOLS

MACKINAW CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

E. Short-Term Debt

On July 1, 2015, the District issued a Tax Anticipation Note in the amount of \$200,000. The note matured on November 1, 2015, with interest at 4.0%. The District pledged its property tax revenue for payment of this liability. The purpose of the note was to provide for cash flow needs at the beginning of the school year. Interest expense for the year was \$1,733. The balance at June 30, 2016 was \$0.

The following is a summary of the Short-Term Debt transactions for the District for the year ended June 30, 2016:

Short-Term Debt at July 1, 2016	\$	0
New Debt Issued		200,000
Debt Retired and Paid		<u>(200,000)</u>
Short-Term Debt at June 30, 2016	\$	<u><u>0</u></u>

F. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables as shown in the individual fund financial statements at June 30, 2016, were:

	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 399	\$ 315,812
School Service Fund - Food Service Fund	0	399
Sinking Fund	<u>315,812</u>	<u>0</u>
	<u>\$ 316,211</u>	<u>\$ 316,211</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
General Fund	\$ 0	\$ 5,100
School Service Fund - Food Service Fund	<u>5,100</u>	<u>0</u>
	<u>\$ 5,100</u>	<u>\$ 5,100</u>

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

MACKINAW CITY PUBLIC SCHOOLS

MACKINAW CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

G. Capital Assets

A summary of changes in the District's capital assets follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Assets not being depreciated				
Land	\$ 33,000	\$ 0	\$ 0	\$ 33,000
Assets being depreciated				
Land Improvements	488,210	13,436	0	501,646
Buildings and Building	2,397,011	28,021	0	2,425,032
Buses and Other Vehicles	220,099	0	14,529	205,570
Furniture and Equipment	609,128	0	0	609,128
Subtotal	3,714,448	41,457	14,529	3,741,376
Accumulated Depreciation				
Land Improvements	486,207	1,080	0	487,287
Buildings and Building	1,423,879	49,590	0	1,473,469
Buses and Other Vehicles	197,801	22,295	14,529	205,567
Furniture and Equipment	568,286	7,893	0	576,179
Subtotal	2,676,173	80,858	14,529	2,742,502
Net capital assets being depreciated	1,038,275	(39,401)	0	998,874
Net capital assets	\$ 1,071,275	\$ (39,401)	\$ 0	\$ 1,031,874

Depreciation for the fiscal year ended June 30, 2016, amounted to \$80,858. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

H. Defined Benefit Plan and Post-Retirement Benefits

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

The System 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.

MACKINAW CITY PUBLIC SCHOOLS

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The System's separately issued financial statements are available at www.michigan.gov/mpsers-cafr.

Benefit Provisions- Pension

Introduction

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

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

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

Prior to pension reform of 2010 there were two plans commonly referred to as Basic and Member Investment Plan (MIP). Basic plan member's contributions range from 0% to 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later, including Pension Plus plan members, contribute at various graduated permanently fixed contribution rates from 3.0% to 7.0%

Pension Reform 2010

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

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Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after December 1, 2012, subsequently amended to February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund. Members who elected under option 1 to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP).

Regular Retirement

Eligibility – Age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, any age with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

Annual Amount – Total credited service as of the transition date times 1.5% of final average compensation.

Pension Plus

An amount determined by the member's election of Option 1, 2, 3, or 4 as described below.

Option 1: Credited service after the transition date times 1.5% times final average compensation.

Option 2: Credited service after the transition date (until total service reaches 30 years) times 1.5% times final average compensation, plus credited service after the transition date and over 30 years times 1.25% times final average compensation.

Option 3: Credited service after the transition date times 1.25% times final average compensation.

Option 4: None (Member will receive benefit through a defined contribution plan). As a Defined Contribution participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS.

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus Plan and the Defined Contribution plan that provides a 50% employer match up to 3% of salary on employee contributions.

Final Average Compensation (FAC) – Average of highest 60 consecutive months (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected option 4, in which case the FAC is calculated at the transition date.

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Contributions

Depending on the plan selected, member contributions range from 0% to 7%. Plan members electing the defined contribution plan are not required to make additional contributions.

Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree other post-employment benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21 year period for the 2015 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2015.

Pension Contribution Rates

<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0-4.0%	22.52-23.07%
Member Investment Plan	3.0-7.0%	22.52-23.07%
Pension Plus	3.0-6.4%	21.99%
Defined Contribution	0.0%	17.72-18.76%

The District's pension contributions for the year ended June 30, 2016 were equal to the required contribution total. Pension contributions were approximately \$319,495. These amounts include contributions funded from state revenue Section 147c restricted to fund MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

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

Pension Liabilities

At June 30, 2016, the District reported a liability of \$3,438,006 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2014 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2015 and 2014, the District's proportion was .01408% and .01540%.

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MPSERS (Plan) Net Pension Liability – As of September 30, 2015 and September 30, 2014

	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Total Pension Liability	\$ 66,312,041,902	\$ 65,160,887,182
Plan Fiduciary Net Position	41,887,015,147	43,134,384,072
Net Pension Liability	<u>\$ 24,425,026,755</u>	<u>\$ 22,026,503,110</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	63.17%	66.20%
Net Pension Liability as a Percentage of Covered-Employee Payroll	292.61%	250.11%

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

For the year ended June 30, 2016, the District recognized total pension expense of \$226,193. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 0	\$ 11,388
Changes of assumptions	84,651	0
Net difference between projected and actual earnings on pension plan investments	17,548	0
Changes in proportion and differences between District contributions and proportionate share of contributions	0	239,266
Section 147 revenue related to District pension contributions subsequent to the measurement date	0	93,947
District contributions subsequent to the measurement date	250,767	0
Total	<u>\$ 352,966</u>	<u>\$ 344,601</u>

\$250,767 reported as deferred outflows of resources and \$93,947 reported as deferred inflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a net reduction of the net pension liability in the year ended June 30, 2017. Other

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

<u>Year Ended June 30,</u>	<u>Amount</u>
2017	\$ (54,744)
2018	(54,744)
2019	(59,334)
2020	20,367
	<u>\$ (148,455)</u>

J. Actuarial Valuations and Assumptions of the Pension Plan

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, 2015
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.50%
Investment Rate of Return	
-MIP and Basic Plans (Non-Hybrid):	8.00%
-Pension Plus Plan (Hybrid):	7.00%
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
Mortality:	RP-2000 Male and Female Combine 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.

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Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, 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: 4.7158.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report.

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity Pools	28.00%	5.90%
Alternative Investment Pools	18.00%	9.20%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	0.90%
Real Estate & Infrastructure Pools	10.00%	4.30%
Absolute Return Pools	15.50%	6.00%
Short-Term Investment Pools	2.00%	0.00%
	<u>100%</u>	

*Long-term rate does not include 2.1% inflation.

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan). This discount rate was based on the long-term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially

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determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

1% Decrease (Non-Hybrid/Hybrid) 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid) 9.0% / 8.0%
\$ 4,432,471	\$ 3,438,006	\$ 2,599,631

K. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2015 Comprehensive Annual Financial Report.

L. Payables to the Pension Plan

As of June 30, 2016, the District is current on all required pension plan payments. As of June 30, 2016, the District reported payables in the amount of \$68,558 to the pension plan. These amounts represent current payments for June wages paid in July, accruals for summer pay primarily for teachers and also the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

M. Benefit Provisions – Other Post-Employment

Introduction

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, is currently 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, hearing, 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 health care 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

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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.

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees. Dependents are eligible for health care coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Retiree Healthcare Reform of 2012

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

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 will be deposited into their 401(k) accounts.

Employer Contributions

The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015; from 2.20% - 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015; and from 6.40% - 6.83% of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee's date of hire and plan election.

The District's contributions to MPSERS for post-employment healthcare contributions for the years ended June 30, 2016 and 2015 were approximately \$64,075 and \$30,020.

N. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to

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special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health insurance. No settlements have occurred in excess of coverage for June 30, 2016 or any of the prior three years.

O. Sinking Fund Tax Levy

In 2008, the taxpayers approved a sinking fund tax levy. The District is authorized to levy 0.75 mills for ten years beginning with the 2008 tax roll. The transactions for the sinking fund are accounted for in a capital projects fund. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

P. Other Information

1. Contingencies

Under the terms of various federal and state grants and regulatory requirements, periodic audits are required and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the district. As an out of formula district, the District could also potentially be impacted by cases brought before the tax tribunal. A reduction in taxable value would cause the District to refund revenues previously collected, with no offset from the State of Michigan. Although various cases are continually brought to the tax tribunal, the outcome and potential effect on these cases is unknown at this time.

Q. Subsequent Events

Subsequent to June 30, 2016, the following items are noted for disclosure:

- On July 1, 2016, the District obtained a Tax Anticipation Note in the amount of \$200,000 to help meet the District's cash flow needs for the beginning of the 2016-2017 fiscal year. The note has an interest rate of 3.0% and matures on November 1, 2016.
- Subsequent to June 30, 2016, the District has entered into various contracts to upgrade and repair buildings, including lighting. These projects expect to cost approximately \$65,000.

No adjustments were made to the financial statements for the year ended June 30, 2016, related to these subsequent events.

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R. GASB 72 – Fair Market Value Disclosure

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 other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The District does not have any investments subject to the fair value measurement.

S. Upcoming Accounting Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 77 – Tax Abatement Disclosures

Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, was issued by the GASB in August 2015 and will be effective for the District's 2017 year-end. The Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements in the footnotes of the financial statements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatements recipients.
- The gross dollar amount of taxes abated during the period.

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- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

This statement will improve the user's ability on how tax abatements affect the reporting unit's financial positions and results of operations, including their ability to raise resources in the future. The District is evaluating how, if at all, it will be affected by this new pronouncement.

Governmental Accounting Standards Board (GASB) Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.

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- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

This statement is effective for fiscal years beginning after June 15, 2017. However, early implementation is encouraged. The District is evaluating the effects this statement will have on the District's net position.

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REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Local Sources	\$ 1,934,522	\$ 2,040,315	\$ 2,038,990
State Sources	176,620	202,251	201,992
Federal Sources	13,000	41,145	44,050
Incoming Transfers and Other Transactions	45,000	34,460	34,821
Total Revenues	<u>2,169,142</u>	<u>2,318,171</u>	<u>2,319,853</u>
<u>EXPENDITURES</u>			
Instruction			
Basic Programs			
Elementary	601,221	622,897	618,900
Middle/Junior High School	216,992	204,656	202,304
High School	574,462	589,735	591,466
Pre-School	0	41,173	40,934
Added Needs			
Special Education	100,797	103,709	103,630
Compensatory Education	0	17,256	17,246
Supporting Services			
Pupil			
Guidance Services	18,301	27,317	27,316
Other Pupil Support Services	12,138	15,193	15,115
Instructional Staff			
Improvement of Instruction	0	4,510	4,510
Instruction Related Technology	0	10,282	10,282
Supervision and Direction of Instructional Staff	13,885	14,173	14,172
General Administration			
Board of Education	18,150	22,856	22,836
Executive Administration	223,829	228,800	227,929
Support Service School Administration			
Office of the Principal	17,014	16,338	16,228
Other School Administration	0	400	285
Business			
Fiscal Services	26,230	24,200	24,135
Other Business Services	5,206	7,969	7,914
Operation and Maintenance			
Operating Buildings Services	162,298	155,739	151,035
Pupil Transportation Services			
Pupil Transportation Services	35,535	42,195	41,098
Support Services - Central			
Non-Instructional Technology Services	12,272	7,707	6,118
Support Services - Other			
Athletic Activities	80,558	90,700	90,278
Community Services			
Community Activities			
Community Activities	0	229	229
Total Expenditures	<u>2,118,888</u>	<u>2,248,034</u>	<u>2,233,960</u>
Excess (Deficiency) of Revenues Over Expenditures	50,254	70,137	85,893
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers Out	(8,500)	(5,000)	(5,100)
Net Change in Fund Balance	41,754	65,137	80,793
<u>FUND BALANCE</u> - Beginning of Year - (Deficit)	<u>(588,172)</u>	<u>(588,172)</u>	<u>(588,172)</u>
<u>FUND BALANCE</u> - End of Year - (Deficit)	<u>\$ (546,418)</u>	<u>\$ (523,035)</u>	<u>\$ (507,379)</u>

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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH FISCAL YEAR)
JUNE 30, 2016

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of net pension liability (%)									0.01408%	0.01540%
District's proportionate share of net pension liability								\$ 3,438,006	\$ 3,391,015	
District's covered-employee payroll								1,178,153	1,336,596	
District's proportionate share of net pension liability as a percentage of its covered-employee payroll								291.81%	253.71%	
Plan fiduciary net position as a percentage of total pension liability								63.17%	66.20%	

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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS

MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)
JUNE 30, 2016

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	
Statutorily required contributions								\$	319,495	\$	275,018
Contributions in relation to statutorily required contributions									319,495		275,018
Contribution deficiency (excess)								\$	0	\$	0
Covered-Employee Payroll								\$	1,135,146	\$	1,209,211
Contributions as a percentage of covered-employee payroll									28.15%		22.74%

* Contributions in relation to statutorily contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED JUNE 30, 2016

A. Changes of Benefit Terms:

There were no changes of benefit terms in 2016.

B. Changes of Assumptions:

Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. There were no changes of assumptions in 2016.



Baird, Cotter & Bishop, P.C.

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CERTIFIED PUBLIC ACCOUNTANTS

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August 9, 2016

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

To the Board of Education
Mackinaw City Public Schools
Mackinaw City, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mackinaw City Public Schools, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Mackinaw City Public Schools' basic financial statements and have issued our report thereon dated August 9, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

2016-001

Significant Deficiency:

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the District. A key element of internal control is the segregation of incompatible duties.

Condition: The District has several accounting functions that are performed by the same individual.

Cause: This condition is primarily the result of staffing constraints typical of smaller districts and the current financial position of the District.

Effect: As a result of this condition, the District is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected by management on a timely basis.

Recommendation: There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the District to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials: With the financial status of the District, the District is unable to hire additional employees at this time to improve the segregation of duties within the accounting function. We realize that segregation of duties is important in order to increase internal control. Management oversight has been an alternative means of monitoring internal control along with continuing to try and reassign some duties within the accounting department to other staff members. We still are exploring ways to spread some of the day-to-day accounting responsibilities. The District and Superintendent will continue to monitor the situation and explore cost effective ways to improve this internal control limitation.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Mackinaw City Public Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described below.

2016-002

Material Noncompliance:

Criteria: Compliance with the Uniform Budgeting and Accounting Act. MCL (Michigan Compile Laws) 141.436 states, except as otherwise permitted in MCL 388-1702 the local school board shall not adopt a general appropriations act (Budget) or an amendment to that act which causes estimated total expenditures to exceed total estimated revenues, in addition to prior year fund balance.

Condition: The District's budget reflects an ending deficit fund balance, which is a violation of state law.

Cause: Various reasons caused this situation and the District as of June 30, 2016, is considered a deficit district by the Michigan Department of Education.

Effect: At June 30, 2016, the District has a cumulative deficit in the general fund.

Recommendation: The District has communicated this issue with the Michigan Department of Education and is in the process of implementing a deficit reduction plan. Our recommendation is that the District follow the deficit elimination plan and work diligently to reduce expenditures in order to eliminate the deficit.

View of Responsible Officials: The District is working with Michigan Department of Education on the implementation of the deficit reduction plan.

MACKINAW CITY PUBLIC SCHOOLS' RESPONSE TO FINDINGS

Mackinaw City Public Schools' response to the findings identified in our audit has been issued in a separate letter. Mackinaw City Public Schools' 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.



MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN 49701

JEFFREY S. CURTH
Superintendent

CORRECTIVE ACTION PLAN

PHONE: 231-436-8211
FAX: 231-436-5434

JUNE 30, 2016

Finding 2016-001: Significant Deficiency Financial Statement Finding

Condition: The District has several accounting functions that are performed by the same individual, causing a lack of proper segregation of duties pertaining to accounting functions.

Corrective Steps Taken: At this time, no steps have been taken as the District management has determined that the cost of eliminating this deficiency outweighs the benefit to the District.

Corrective Steps to be Taken: Because of the financial standing of the District, there are no plans to hire additional staff to eliminate this significant deficiency in internal control. If the District eliminates the current deficit, and funding allows, additional staffing related to the accounting functions may be considered in the future.

Monitoring: The District will continue to monitor its financial situation and consider adding additional staff if it is determined that the benefits outweigh the costs. In the meantime, the District will continue to explore ways to implement proper segregation of duties.

Reasons Corrective Action Not Necessary: As mentioned above, the District does not believe it is financially prudent to take on more staff to segregate accounting functions at this time. The District is a small school District and the accounting staff currently have no issues performing the duties in a satisfactory manner.

Name of Responsible Person for Further Information: Jeffrey Curth, Superintendent

Questioned Costs Related to this Finding: None.

Finding 2016-002: Material Noncompliance Financial Statement Finding

Condition: The District has a cumulative fund balance deficit in the General Fund as of June 30, 2016.

Corrective Steps Taken: The District has filed the required deficit elimination plan with the Michigan Department of Education and Michigan Department of Treasury and is working continuously with those departments to monitor the deficit and corresponding elimination plan.

Corrective Steps to be Taken: The District will continue to work with the appropriate departments at the State of Michigan as it attempts to emerge from the deficit situation.

Monitoring: As part of the deficit elimination plan process implemented by the State of Michigan, the District closely monitors its budget, adherence to the deficit elimination plan, and any other requirements set forth by the State of Michigan.

Reasons Corrective Action Not Necessary: None.

Name of Responsible Person for Further Information: Jeffrey Curth, Superintendent

Questioned Costs Related to this Finding: None.

