# MACKINAW CITY PUBLIC SCHOOLS

## REPORT ON FINANCIAL STATEMENTS

## JUNE 30, 2017

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

CERTIFIED PUBLIC ACCOUNTANTS
134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749
www.bcbcpa.com

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2017

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August 11, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***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, 2017, 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.A 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 11, 2017, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Mackinaw City Public Schools' 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, 2017

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, 2017. 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.

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** | 2017 | 2016 |
|---|---|---|
| Current Assets | $ 263,081 | $ 154,816 |
| Non Current Assets | | |
| Capital Assets | 3,851,299 | 3,774,376 |
| Less Accumulated Depreciation | (2,800,526) | (2,742,502) |
| Total Non Current Assets | 1,050,773 | 1,031,874 |
| Total Assets | 1,313,854 | 1,186,690 |
| **Deferred Outflows of Resources** | | |
| Deferred Outflows of Resources Related to Pensions | 456,431 | 352,966 |

| | 2017 | 2016 |
|---|---|---|
| **Liabilities** | | |
| Current Liabilities | 256,741 | 309,881 |
| Non Current Liabilities | 3,443,343 | 3,469,896 |
| Total Liabilities | 3,700,084 | 3,779,777 |
| **Deferred Inflows of Resources** | | |
| Deferred Inflows of Resources Related to Pensions | 380,883 | 344,601 |
| **Net Position** | | |
| Net Investment in Capital Assets | 1,050,773 | 1,031,874 |
| Restricted for Specific Purposes | 354,316 | 352,314 |
| Unrestricted - (Deficit) | (3,715,771) | (3,968,910) |
| Total Net Position | $ (2,310,682) | $ (2,584,722) |

## D. Analysis of Financial Position

During the fiscal year ended June 30, 2017, the District's net position increased by $274,040. 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, 2017, $58,024 was recorded for depreciation expense.

### 2. *Capital Outlay Acquisitions*

For the year ended June 30, 2017, $76,923 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 an increase in capital assets in the amount of $18,899 for the year ended June 30, 2017.

### 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, 2017, the District reported an increase in net position related to GASB 68, which indicates that the District's proportionate share of the net pension liability decreased.

## E. Results of Operations

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

| | 2017 | 2016 |
|---|---|---|
| **General Revenues** | | |
| Property Taxes | $ 2,214,857 | $ 2,102,079 |
| Investment Earnings | 727 | 549 |
| State Sources | 11,537 | 29,103 |
| Other | 16,779 | 8,569 |
| Total General Revenues | 2,243,900 | 2,140,300 |
| **Program Revenues** | | |
| Charges for Services | 17,945 | 40,170 |
| Operating Grants and Contributions | 295,331 | 170,198 |
| Total Program Revenues | 313,276 | 210,368 |
| Total Revenues | 2,557,176 | 2,350,668 |
| **Expenses** | | |
| Instruction | 1,532,668 | 1,495,837 |
| Supporting Services | 634,219 | 633,206 |
| Community Services | 314 | 229 |
| Facilities Acquisition | 35,477 | 28,674 |
| Food Service Activities | 22,434 | 22,033 |
| Unallocated Depreciation | 58,024 | 80,858 |
| Total Expenses | 2,283,136 | 2,260,837 |
| Change in Net Position | $ 274,040 | $ 89,831 |

## 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:

| | Fund Balance June 30, 2017 | Fund Balance June 30, 2016 | Increase (Decrease) in Fund Balance |
|---|---|---|---|
| **Major Funds** | | | |
| General Fund | $ (347,976) | $ (507,379) | $ 159,403 |
| Sinking Fund | 353,921 | 352,261 | 1,660 |
| **Nonmajor Funds** | | | |
| Food Service | 395 | 53 | 342 |
| Total Governmental Funds | $ 6,340 | $ (155,065) | $ 161,405 |

**General Fund** – In 2016-2017, the General Fund's fund balance increased by $159,403. Tax revenues increased for the second year in a row, this year by a significant amount. Expenditures increased slightly; however, a significant portion of the increase in expenditures is a result of larger funding amounts from Title I and Title II than the District has received in past years.

**Sinking Fund** – In 2016-2017, the Sinking Fund's fund balance increased slightly because the District expended nearly the same amount of resources from the sinking fund as it collected revenues during the fiscal year. Property taxes collected and minimal interest amounted to $114,060. Capital outlay expenditures amounted to $112,400.

**Food Service Fund –** In 2016-2017, the Food Service Fund's fund balance increased slightly. However, the increase was attributable to the General Fund transferring $10,500 to the Food Service Fund to help pay for necessary expenditures. The amount transferred from the General Fund during 2016-2017 was $5,400 more than was transferred in 2015-2016.

## 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 2016-2017 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:

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL |
|---|---|---|---|
| Total Revenues | $ 2,395,416 | $ 2,442,223 | $ 2,440,170 |
| EXPENDITURES | | | |
| Instruction | $ 1,563,669 | $ 1,627,201 | $ 1,618,215 |
| Supporting Services | 689,533 | 670,440 | 651,738 |
| Community Services | 425 | 520 | 314 |
| Total Expenditures | $ 2,253,627 | $ 2,298,161 | $ 2,270,267 |

The changes from original budget and final budget resulted from funding amounts from local and federal sources becoming clearer as the year progressed. Property tax revenues increased and the District received additional federal grant allocations. The expenditures were amended to reflect these additional grant allocations. The expenditures were also adjusted to reflect the hiring of a Special Education paraprofessional and an adjustment in the teacher collective bargaining agreement.

The revenue and expenditure variances between final budget and actual were minimal.

## H. Capital Asset and Debt Administration

### *1. Capital Assets*

At the end of the 2016-2017 fiscal year, the District had invested $1,050,773 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 increase of $18,899 from the prior fiscal year. Depreciation expense for the year amounted to $58,024 bringing the accumulation to $2,800,526 as of June 30, 2017. The District purchased LED fixtures and replaced all of the old fixtures for $46,740 and replaced a water line and paved the parking lot at a cost of approximately $30,200. These capital asset additions 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 increased $17,147 during the year to $49,037. The net pension liability decreased by $43,700 to $3,394,306.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2017

## 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.

- 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.

- In May 2017, local taxpayers renewed the Sinking Fund for an additional ten years. This fund has been vital to the school in maintaining facilities. Under new legislation enacted by the State of Michigan, these funds will now be available to use for technology and security upgrades.

## 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, 2017

| | | |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | $ | 213,152 |
| Due from Other Governmental Units | | 43,975 |
| Prepaid Expenditures | | 5,954 |
| Total Current Assets | | 263,081 |
| NON CURRENT ASSETS | | |
| Capital Assets | | 3,851,299 |
| Less Accumulated Depreciation | | (2,800,526) |
| Total Non Current Assets | | 1,050,773 |
| TOTAL ASSETS | | 1,313,854 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred Outflows of Resources Related to Pensions | | 456,431 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | | 29,976 |
| Salaries and Benefits Payable | | 222,765 |
| Unearned Revenue | | 4,000 |
| Total Current Liabilities | | 256,741 |
| NON CURRENT LIABILITIES | | |
| Compensated Absences | | 49,037 |
| Net Pension Liability | | 3,394,306 |
| Total Non Current Liabilities | | 3,443,343 |
| TOTAL LIABILITIES | | 3,700,084 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred Inflows of Resources Related to Pensions | | 380,883 |
| NET POSITION | | |
| Net Investment in Capital Assets | | 1,050,773 |
| Restricted for Capital Projects | | 353,921 |
| Restricted for Food Service | | 395 |
| Unrestricted - (Deficit) | | (3,715,771) |
| TOTAL NET POSITION | $ | (2,310,682) |

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, 2017

| FUNCTIONS/PROGRAMS | EXPENSES | PROGRAM REVENUES: CHARGES FOR SERVICES | PROGRAM REVENUES: OPERATING GRANTS & CONTRIBUTIONS | GOVERNMENTAL ACTIVITIES: NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION |
|---|---|---|---|---|
| GOVERNMENTAL ACTIVITIES | | | | |
| Instruction | $ 1,532,668 | $ 0 | $ 219,244 | $ (1,313,424) |
| Supporting Services | 634,219 | 15,477 | 65,967 | (552,775) |
| Community Services | 314 | 0 | 314 | 0 |
| Facilities Acquisition | 35,477 | 0 | 0 | (35,477) |
| Food Service | 22,434 | 2,468 | 9,806 | (10,160) |
| Unallocated Depreciation | 58,024 | 0 | 0 | (58,024) |
| TOTAL GOVERNMENTAL ACTIVITIES | $ 2,283,136 | $ 17,945 | $ 295,331 | (1,969,860) |
| GENERAL REVENUES | | | | |
| Property Taxes - General Purposes | | | | 2,101,049 |
| Property Taxes - Capital Projects | | | | 113,808 |
| Investment Earnings | | | | 727 |
| State Sources | | | | 11,537 |
| Other | | | | 16,779 |
| Total General Revenues | | | | 2,243,900 |
| Change in Net Position | | | | 274,040 |
| NET POSITION - Beginning of Year (Deficit) | | | | (2,584,722) |
| NET POSITION - End of Year (Deficit) | | | | $ (2,310,682) |

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, 2017

| | GENERAL FUND | SINKING FUND | NON-MAJOR FOOD SERVICE FUND | TOTAL GOVERNMENTAL FUNDS |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and Cash Equivalents | $ 114,365 | $ 97,609 | $ 1,178 | $ 213,152 |
| Due from Other Funds | 938 | 256,595 | 0 | 257,533 |
| Due from Other Governmental Units | 43,820 | 0 | 155 | 43,975 |
| Prepaid Expenditures | 5,954 | 0 | 0 | 5,954 |
| TOTAL ASSETS | $ 165,077 | $ 354,204 | $ 1,333 | $ 520,614 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts Payable | $ 29,693 | $ 283 | $ 0 | $ 29,976 |
| Salaries and Benefits Payable | 222,765 | 0 | 0 | 222,765 |
| Due to Other Funds | 256,595 | 0 | 938 | 257,533 |
| Unearned Revenue | 4,000 | 0 | 0 | 4,000 |
| Total Liabilities | 513,053 | 283 | 938 | 514,274 |
| FUND BALANCES | | | | |
| Nonspendable, Prepaid Expenditures | 5,954 | 0 | 0 | 5,954 |
| Restricted for Capital Projects | 0 | 353,921 | 0 | 353,921 |
| Restricted for Food Service | 0 | 0 | 395 | 395 |
| Unassigned (Deficit) | (353,930) | 0 | 0 | (353,930) |
| Total Fund Balances | (347,976) | 353,921 | 395 | 6,340 |
| TOTAL LIABILITIES AND FUND BALANCES | $ 165,077 | $ 354,204 | $ 1,333 | $ 520,614 |

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, 2017

| | | |
|---|---|---|
| Total Governmental Fund Balances | | $ 6,340 |
| 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 | $ 3,851,299 | |
| Accumulated depreciation is | (2,800,526) | 1,050,773 |
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore, are not reported in the funds. | | |
| Deferred Outflows of Resources Related to Pensions | | 456,431 |
| Deferred Inflows of Resources Related to Pensions | | (380,883) |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds. | | |
| Net Pension Liability | | (3,394,306) |
| Compensated Absences | | (49,037) |
| NET POSITION OF GOVERNMENTAL ACTIVITIES | | $ (2,310,682) |

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, 2017

| | GENERAL FUND | SINKING FUND | NON-MAJOR FOOD SERVICE FUND | TOTAL GOVERNMENTAL FUNDS |
|---|---|---|---|---|
| REVENUES | | | | |
| Local Sources | $ 2,133,778 | $ 114,060 | $ 2,470 | $ 2,250,308 |
| State Sources | 207,254 | 0 | 479 | 207,733 |
| Federal Sources | 61,285 | 0 | 9,327 | 70,612 |
| Incoming Transfers and Other Transactions | 37,853 | 0 | 0 | 37,853 |
| Total Revenues | 2,440,170 | 114,060 | 12,276 | 2,566,506 |
| EXPENDITURES | | | | |
| Instruction | | | | |
| Basic Programs | 1,451,359 | 0 | 0 | 1,451,359 |
| Added Needs | 166,856 | 0 | 0 | 166,856 |
| Supporting Services | | | | |
| Pupil | 38,145 | 0 | 0 | 38,145 |
| Instructional Staff | 27,801 | 0 | 0 | 27,801 |
| General Administration | 256,419 | 0 | 0 | 256,419 |
| School Administration | 16,475 | 0 | 0 | 16,475 |
| Business | 32,753 | 0 | 0 | 32,753 |
| Operation and Maintenance | 148,815 | 0 | 0 | 148,815 |
| Pupil Transportation Services | 43,715 | 0 | 0 | 43,715 |
| Central | 9,989 | 0 | 0 | 9,989 |
| Athletic Activities | 77,626 | 0 | 0 | 77,626 |
| Community Services | | | | |
| Community Activities | 314 | 0 | 0 | 314 |
| Facilities Acquisition, Construction and Improvements | | | | |
| Building Improvement Services | 0 | 112,400 | 0 | 112,400 |
| Food Service | 0 | 0 | 22,434 | 22,434 |
| Total Expenditures | 2,270,267 | 112,400 | 22,434 | 2,405,101 |
| Excess (Deficiency) of Revenues Over Expenditures | 169,903 | 1,660 | (10,158) | 161,405 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | 0 | 0 | 10,500 | 10,500 |
| Transfers Out | (10,500) | 0 | 0 | (10,500) |
| Total Other Financing Sources (Uses) | (10,500) | 0 | 10,500 | 0 |
| Net Change in Fund Balance | 159,403 | 1,660 | 342 | 161,405 |
| FUND BALANCE - Beginning of Year - (Deficit) | (507,379) | 352,261 | 53 | (155,065) |
| FUND BALANCE - End of Year - (Deficit) | $ (347,976) | $ 353,921 | $ 395 | $ 6,340 |

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, 2017

| | | |
|---|---|---|
| Net Change in Fund Balances Total Governmental Funds | $ | 161,405 |
| Amounts reported for governmental activities are different because: | | |
| Activities, these costs are allocated over their estimated useful lives as depreciation. | | |
| Depreciation Expense | | (58,024) |
| Capital Outlay | | 76,923 |
| 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 Pension Related Items | | 120,213 |
| Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to Section 147 C pension contributions subsequent to the measurement date. | | |
| Change in State Funding Related to Pensions | | (9,330) |
| 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 governmental funds: | | |
| Compensated Absences - Beginning of Year | | 31,890 |
| Compensated Absences - End of Year | | (49,037) |
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES | $ | 274,040 |

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, 2017

| | AGENCY FUND |
|---|---|
| ASSETS | |
| Cash and Cash Equivalents | $ 22,027 |
| LIABILITIES | |
| Due to Groups and Organizations | 22,027 |
| NET POSITION | $ 0 |

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

## 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.

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.

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 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 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.

g) Budgeted amounts are as originally adopted on June 29, 2016, or as amended by the School Board of Education throughout the year.

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

### *1. Cash and Cash Equivalents*

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments. The government considers all highly liquid investments (including certificates of deposit) to be cash equivalents.

### *2. Investments*

Investments – Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration and the rate of return is fixed, and the District intends to hold the investment until maturity.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings, and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. District or federal agency obligation repurchase agreements, banker's acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Investments in the U.S. Treasury securities and those other securities completely guaranteed by the Treasury as to payment of principal and interest may be purchased in any dollar amount or up to 100 percent of the available reserves.

All investments must mature or be redeemable within two years of the date of purchase. The District's deposits and investments are held separately by several of the District's funds.

### 3. *Inventory and Prepaid Items*

Inventories are valued at cost using the first in/first out (FIFO) method. Inventories, when applicable, 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. The nonspendable fund balance at the governmental fund level is equal to the amount of inventories and prepaid items at year-end to indicate the portion of the governmental fund balances that are nonspendable.

### 4. *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 acquisition value at the date of the 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:

| ASSETS | YEARS |
|---|---|
| Buildings, Building Improvements, and Land Improvements | 10-50 years |
| Buses and Other Vehicles | 7-15 years |
| Furniture and Other Equipment | 2-15 years |

**5. *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.

***6. 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.

***7. Unearned Revenue***

Unearned revenue arises when resources are received by the District before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. The District recognizes unearned revenue related to funds it has received for the purchase of new playground equipment.

***8. 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 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 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.

***9. 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 School Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

***10. 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.

***11. 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.

***12. 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.

***13. 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 it's 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.

### *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, 2017, the District levied the following amounts per $1,000 of taxable valuation:

| Fund | Mills |
|---|---|
| General Fund - Non-PRE | 17.7634 |
| General Fund - Commercial PPT | 5.7634 |
| Sinking Fund - PRE, Non-PRE, Commercial Personal Property | 0.7462 |

## NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. Deficit Fund Equity

As of June 30, 2017, the District's General Fund had a deficit fund balance of $347,976. 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

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2017, the District's bank balance was $253,828. $3,828 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the District's investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the deposits.

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

*Credit risk.* State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSOs).

*Concentration of credit risk.* The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*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.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Although the District's investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the investments.

**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 reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices from similar activities, interest rates, prepayment speeds, credit risk, and others. Debt securities are valued in accordance with evaluated bid price supplied by the pricing service and generally categorized as Level 2 in the hierarchy. Securities that are categorized as Level 2 in the hierarchy include, but are not limited to, repurchase agreements, U.S. government agency securities, corporate securities, and commercial paper.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the reporting entity's own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

The 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. There are two types of valuation techniques most commonly used and vary depending on the level of investment. These two techniques are the market approach and income approach. The market approach uses prices and other relevant information generated by the market transactions involving identical or similar assets and liabilities. The income approach discounts future amounts to a single current amount and the discount rate used in the process should reflect current market expectations about risks associated with those future cash flows.

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

The carrying amount of deposits and investments is as follows:

| | Total |
|---|---|
| Deposits – including Fiduciary Funds of $22,027 | $ 235,179 |

The above amounts are reported in the financial statements as follows:

| | Total |
|---|---|
| Cash - Fiduciary Funds | $ 22,027 |
| Cash - District-Wide | 213,152 |
| | $ 235,179 |

**B. Receivables**

Receivables as of year-end for the government's individual funds, including the applicable allowances for uncollectible accounts, are as follows:

| | General Fund | Food Service Fund | Total |
|---|---|---|---|
| Receivables | | | |
| Due from Other Governments | $ 43,820 | $ 155 | $ 43,975 |

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, 2017, were as follows:

| | GENERAL FUND |
|---|---|
| Salaries | $ 138,619 |
| Employee Benefits | 84,146 |
| Total accrued liabilities | $ 222,765 |

**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, 2017:

| | Balance July 1, 2016 | Increases | (Decreases) | Balance June 30, 2017 | Due Within Year |
|---|---|---|---|---|---|
| Compensated Absences | $ 31,890 | $ 19,847 | $ (2,700) | $ 49,037 | $ 0 |
| Pension Liability | 3,438,006 | 261,805 | (305,505) | 3,394,306 | 0 |
| Total | $ 3,469,896 | $ 281,652 | $ (308,205) | $ 3,443,343 | $ 0 |

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 General Fund.

**E. Short-Term Debt**

On July 1, 2016, the District issued a Tax Anticipation Note in the amount of $200,000. The note matured on November 1, 2016, with interest at 3.0%. 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 $1,383. The balance at June 30, 2017 was $0.

The following is a summary of the Short-Term Debt transactions for the District for the year ended June 30, 2017:

| | | |
|---|---|---|
| Short-Term Debt at July 1, 2016 | $ | 0 |
| New Debt Issued | | 200,000 |
| Debt Retired and Paid | | (200,000) |
| Short-Term Debt at June 30, 2017 | $ | 0 |

**F. Interfund Receivables, Payables, and Transfers**

Interfund Receivables and Payables as shown in the individual fund financial statements at June 30, 2017, were:

| | INTERFUND RECEIVABLES | | INTERFUND PAYABLES | |
|---|---|---|---|---|
| General Fund | $ | 938 | $ | 256,595 |
| School Service Fund - Food Service Fund | | 0 | | 938 |
| Sinking Fund | | 256,595 | | 0 |
| | $ | 257,533 | $ | 257,533 |

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.

| | TRANSFERS IN | | TRANSFERS OUT | |
|---|---|---|---|---|
| General Fund | $ | 0 | $ | 10,500 |
| School Service Fund - Food Service Fund | | 10,500 | | 0 |
| | $ | 10,500 | $ | 10,500 |

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.

## G. Capital Assets

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

| | Balance July 1, 2016 | Additions | Deletions | Balance June 30, 2017 |
|---|---|---|---|---|
| Assets not being depreciated | | | | |
| Land | $ 33,000 | $ 0 | $ 0 | $ 33,000 |
| Assets being depreciated | | | | |
| Land Improvements | 501,646 | 30,183 | 0 | 531,829 |
| Buildings and Building Improvements | 2,425,032 | 46,740 | 0 | 2,471,772 |
| Buses and Other Vehicles | 205,570 | 0 | 0 | 205,570 |
| Furniture and Equipment | 609,128 | 0 | 0 | 609,128 |
| Subtotal | 3,741,376 | 76,923 | 0 | 3,818,299 |
| Accumulated Depreciation | | | | |
| Land Improvements | 487,287 | 2,738 | 0 | 490,025 |
| Buildings and Building Improvements | 1,473,469 | 51,577 | 0 | 1,525,046 |
| Buses and Other Vehicles | 205,567 | 3 | 0 | 205,570 |
| Furniture and Equipment | 576,179 | 3,706 | 0 | 579,885 |
| Subtotal | 2,742,502 | 58,024 | 0 | 2,800,526 |
| Net capital assets being depreciated | 998,874 | 18,899 | 0 | 1,017,773 |
| Net capital assets | $ 1,031,874 | $ 18,899 | $ 0 | $ 1,050,773 |

Depreciation for the fiscal year ended June 30, 2017, amounted to $58,024. 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.

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:

| Plan Name | Plan Type | Plan Status |
|---|---|---|
| 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.

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

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.

***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 60$^{th}$ 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.

**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, 2016 valuation will be amortized over a 20 year period for the 2016 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2016.

**Pension Contribution Rates**

| Benefit Structure | Member | Employer |
|---|---|---|
| Basic | 0.0-4.0% | 18.95% |
| Member Investment Plan | 3.0-7.0% | 18.95% |
| Pension Plus | 3.0-6.4% | 17.73% |
| Defined Contribution | 0.0% | 14.56% |

The District's pension contributions for the year ended June 30, 2017 were equal to the required contribution total. Pension contributions were approximately $329,609. 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, 2017, the District reported a liability of $3,394,306 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2015 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, 2016 and 2015, the District's proportion was .01360488% and .01407575%.

**MPSERS (Plan) Net Pension Liability – As of September 30, 2016 and September 30, 2015**

| | September 30, 2016 | September 30, 2015 |
|---|---|---|
| Total Pension Liability | $ 67,917,445,078 | $ 66,312,041,902 |
| Plan Fiduciary Net Position | 42,968,263,308 | 41,887,015,147 |
| Net Pension Liability | $ 24,949,181,770 | $ 24,425,026,755 |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 63.27% | 63.17% |
| Net Pension Liability as a Percentage of Covered-Employee Payroll | 295.81% | 292.61% |

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

For the year ended June 30, 2017, the District recognized total pension expense of $106,122. 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, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 42,302 | $ 8,045 |
| Changes of assumptions | 53,067 | 0 |
| Net difference between projected and actual earnings on pension plan investments | 56,413 | 0 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 4,819 | 269,562 |
| Section 147 revenue related to District pension contributions subsequent to the measurement date | 0 | 103,276 |
| District contributions subsequent to the measurement date | 299,830 | 0 |
| **Total** | $ 456,431 | $ 380,883 |

$299,830 reported as deferred outflows of resources and $103,276 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, 2018. Other amounts reported as deferred outflows of resources (+) and deferred inflows of resources (-) related to pensions will be recognized in pension expense as follows:

| Year Ended September 30, | Amount |
|---|---|
| 2018 | $ (62,434) |
| 2019 | (66,871) |
| 2020 | 10,779 |
| 2021 | (2,480) |
| | $ (121,006) |

## 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. |

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

- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.6273.

- Recognition period for assets in years is 5.0000.

- Full actuarial assumptions are available in the 2016 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, 2016, are summarized in the following table:

| **Investment Category** | **Target Allocation** | **Long-Term Expected Real Rate of Return** |
|---|---|---|
| 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% |
| | 100% | |

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

***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% (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% |
|---|---|---|
| $ 4,371,012 | $ 3,394,306 | $ 2,570,849 |

### 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 2016 Comprehensive Annual Financial Report.

### L. Payables to the Pension Plan

As of June 30, 2017, the District is current on all required pension plan payments. As of June 30, 2017, the District reported payables in the amount of $44,730 to the pension plan. These amounts represent 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 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 February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subside 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 September 30, 2016; and 5.69% - 5.91% of covered payroll for the period from October 1, 2016 through September 30, 2017, 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, 2017, 2016 and 2015 were approximately $111,800, $105,400 and $30,000.

## 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 special assessment to make up the deficiency. The District has not been informed of any special assessments being required. 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, 2017, 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, less any reductions 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. 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.

**Q. Subsequent Events**

Subsequent to June 30, 2017, the following items are noted for disclosure:

- On July 1, 2017, the District obtained a Tax Anticipation Note in the amount of $100,000 to help meet the District’s cash flow needs for the beginning of the 2017-2018 fiscal year. The note has an interest rate of 3.0% and matures on November 1, 2017.

- Subsequent to June 30, 2017, the District has entered into various contracts to upgrade and repair buildings, communication equipment, copy machines, playground equipment and other items. These projects expect to cost approximately $100,000. A small portion will be funded by local donations, but the majority of these expenditures will be paid from the Sinking Fund.

No adjustments were made to the financial statements for the year ended June 30, 2017, related to these subsequent events.

**R. 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 was 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.

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

This statement improves 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. No tax abatements were noted for disclosure.

**S. Upcoming Accounting Pronouncements**

**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.

- 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.

**Governmental Accounting Standards Board (GASB) Statement No. 84 – Fiduciary Activities**

GASB Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and will be effective for the District's 2020 fiscal year-end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. The District is currently evaluating the effects this statement will have on the District's financial reporting.

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

# REQUIRED SUPPLEMENTARY INFORMATION
## BUDGETARY COMPARISON SCHEDULE
## GENERAL FUND

YEAR ENDED JUNE 30, 2017

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL |
|---|---|---|---|
| REVENUES | | | |
| Local Sources | $ 2,112,552 | $ 2,132,785 | $ 2,133,778 |
| State Sources | 200,240 | 206,536 | 207,254 |
| Federal Sources | 48,164 | 65,049 | 61,285 |
| Incoming Transfers and Other Transactions | 34,460 | 37,853 | 37,853 |
| Total Revenues | 2,395,416 | 2,442,223 | 2,440,170 |
| EXPENDITURES | | | |
| Instruction | | | |
| Basic Programs | 1,442,768 | 1,455,966 | 1,451,359 |
| Added Needs | 120,901 | 171,235 | 166,856 |
| Supporting Services | | | |
| Pupil | 38,974 | 38,803 | 38,145 |
| Instructional Staff | 38,253 | 30,542 | 27,801 |
| General Administration | 254,421 | 259,848 | 256,419 |
| School Administration | 17,338 | 16,888 | 16,475 |
| Business | 33,119 | 33,484 | 32,753 |
| Operation and Maintenance | 165,406 | 152,075 | 148,815 |
| Pupil Transportation Services | 43,660 | 44,005 | 43,715 |
| Support Services - Central | 13,272 | 14,433 | 9,989 |
| Support Services - Other | 85,090 | 80,362 | 77,626 |
| Community Services | 425 | 520 | 314 |
| Total Expenditures | 2,253,627 | 2,298,161 | 2,270,267 |
| Excess (Deficiency) of Revenues Over Expenditures | 141,789 | 144,062 | 169,903 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers Out | (8,500) | (10,500) | (10,500) |
| Net Change in Fund Balance | 133,289 | 133,562 | 159,403 |
| FUND BALANCE - Beginning of Year - (Deficit) | (546,419) | (507,379) | (507,379) |
| FUND BALANCE - End of Year - (Deficit) | $ (413,130) | $ (373,817) | $ (347,976) |

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

# 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, 2017

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| District's proportion of net pension liability (%) | | | | | | | | 0.01360% | 0.01408% | 0.01540% |
| District's proportionate share of net pension liability | | | | | | | | $ 3,394,306 | $ 3,438,006 | $ 3,391,015 |
| District's covered-employee payroll | | | | | | | | 1,156,668 | 1,178,153 | 1,336,596 |
| District's proportionate share of net pension liability as a percentage of its covered-employee payroll | | | | | | | | 293.46% | 291.81% | 253.71% |
| Plan fiduciary net position as a percentage of total pension liability | | | | | | | | 63.27% | 63.17% | 66.20% |

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

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, 2017

| | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| Statutorily required contributions | | | | | | | | $ 329,609 | $ 319,495 | $ 275,018 |
| Contributions in relation to statutorily required contributions | | | | | | | | 329,609 | 319,495 | 275,018 |
| Contribution deficiency (excess) | | | | | | | | $ 0 | $ 0 | $ 0 |
| Covered-Employee Payroll | | | | | | | | $ 1,234,256 | $ 1,135,146 | $ 1,209,211 |
| Contributions as a percentage of covered-employee payroll | | | | | | | | 26.71% | 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.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED JUNE 30, 2017

**A. Changes of Benefit Terms:**

There were no changes of benefit terms for the plan year ended September 30, 2016.

**B. Changes of Assumptions:**

There were no changes of benefit assumptions for the plan year ended September 30, 2016.

Baird, Cotter & Bishop, P.C.
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134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749
www.bcbcpa.com

August 11, 2017

# 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, 2017, 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 11, 2017.

## 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 purchase 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.

2017-001

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.

2017-002

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, 2017, is considered a deficit district by the Michigan Department of Education.

Effect: At June 30, 2017, 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

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

## CORRECTIVE ACTION PLAN

## JUNE 30, 2017

**Finding 2017-001:** 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 Plan 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 2017-002:** Material Noncompliance Financial Statement Finding

**Condition:** The District has a cumulative fund balance deficit in the General Fund as of June 30, 2017.

**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.

**MACKINAW CITY PUBLIC SCHOOLS**
MACKINAW CITY, MICHIGAN 49701

**JEFFREY S. CURTH**
Superintendent

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


## CORRECTIVE ACTION PLAN

## JUNE 30, 2017

**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 Plan Not Necessary:** None.

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

**Questioned Costs Related to this Finding:** None.