MACKINAW CITY PUBLIC SCHOOLS

REPORT ON FINANCIAL STATEMENTS

JUNE 30, 2018

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

CERTIFIED PUBLIC ACCOUNTANTS
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MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2018

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August 17, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 2.Q. to the financial statements, Mackinaw City Public Schools implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than* Pensions. 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, as identified in the table of contents, on pages iii-ix and 33-38 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 17, 2018, 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, 2018

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, 2018. 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, 2018 and 2017. The prior year has not been restated to include GASB No. 75 Standards – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*:

Assets	2018	2017
Current Assets	$ 555,364	$ 263,081
Non Current Assets		
Capital Assets	4,004,601	3,851,299
Less Accumulated Depreciation	(2,865,590)	(2,800,526)
Total Non Current Assets	1,139,011	1,050,773
Total Assets	1,694,375	1,313,854
Deferred Outflows of Resources	848,293	456,431

	2018	2017
Liabilities		
Current Liabilities	231,301	256,741
Non Current Liabilities	4,837,388	3,443,343
Total Liabilities	5,068,689	3,700,084
Deferred Inflows of Resources	552,351	380,883
Net Position		
Net Investment in Capital Assets	1,139,011	1,050,773
Restricted for Specific Purposes	306,331	354,316
Unrestricted - (Deficit)	(4,523,714)	(3,715,771)
Total Net Position	$ (3,078,372)	$ (2,310,682)

D. Analysis of Financial Position

During the fiscal year ended June 30, 2018, the District's net position increased by $459,174. 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, 2018, $65,064 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the year ended June 30, 2018, $153,302 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 $88,238 for the year ended June 30, 2018.

3. Pension and Other Postemployment Benefit Expense

GASB 68 and GASB 75 now require 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 and other postemployment benefits liabilities increase or decrease in any given year. For the year ended June 30, 2018, the District reported an increase in net position related to GASB 68 and GASB 75, which indicates that the District's proportionate share of the net pension and other postemployment benefits liabilities decreased.

E. Results of Operations

The following schedule summarizes the results of operations on a district-wide basis for the years ended June 30, 2018 and 2017. The prior year has not been restated to include GASB No. 75 Standards – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*:

	2018	2017
General Revenues		
Property Taxes	$ 2,377,243	$ 2,214,857
Investment Earnings	986	727
State Sources	12,633	11,537
Other	8,154	16,779
Total General Revenues	2,399,016	2,243,900
Program Revenues		
Charges for Services	17,398	17,945
Operating Grants and Contributions	375,136	295,331
Capital Grants and Contributions	6,000	0
Total Program Revenues	398,534	313,276
Total Revenues	2,797,550	2,557,176
Expenses		
Instruction	1,576,708	1,532,668
Supporting Services	661,709	634,219
Community Services	119	314
Facilities Acquisition	13,950	35,477
Food Service Activities	20,826	22,434
Unallocated Depreciation	65,064	58,024
Total Expenses	2,338,376	2,283,136
Change in Net Position	$ 459,174	$ 274,040

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, 2018	Fund Balance June 30, 2017	Increase (Decrease) in Fund Balance
Major Funds			
General Fund	$ 17,732	$ (347,976)	$ 365,708
Sinking Fund	305,425	353,921	(48,496)
Nonmajor Funds			
Food Service	906	395	511
Total Governmental Funds	$ 324,063	$ 6,340	$ 317,723

General Fund – In 2017-2018, the General Fund's fund balance increased by $365,708. Tax revenues increased for the second year in a row, this year by a significant amount. A small increase in expenditures was more than offset by the increased property tax revenues causing the significant increase in fund balance.

Sinking Fund – In 2017-2018, the Sinking Fund's fund balance decreased as the District spent resources on security and communication improvements, roof projects, and various other improvements to the District's facilities. Property taxes collected and minimal interest amounted to $127,678. Capital outlay expenditures amounted to $176,174.

Food Service Fund – In 2017-2018, the Food Service Fund's fund balance increased slightly. The increase in fund balance was aided by a transfer in from the General Fund. However, the amount transferred was the smallest in three years, indicating that the fund had a better performance when compared to either of the prior two years.

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 2017-2018 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	$ 2,522,948	$ 2,647,974	$ 2,652,983
EXPENDITURES			
Instruction	$ 1,619,208	$ 1,618,113	$ 1,612,979
Supporting Services	685,134	694,494	671,777
Community Services	520	120	119
Total Expenditures	$ 2,304,862	$ 2,312,727	$ 2,284,875

The changes from original budget and final budget resulted from funding amounts from local and state sources becoming clearer as the year progressed. Property tax revenues increased, and the District received additional state funding related to retirement. There was minimal change between the original and budgeted expenditures. The revenue and expenditure variances between final budget and actual were also minimal.

H. Capital Asset and Debt Administration

1. Capital Assets

At the end of the 2017-2018 fiscal year, the District had invested $1,139,011 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 $88,238 from the prior fiscal year. Depreciation expense for the year amounted to $65,064 bringing the accumulation to $2,865,590 as of June 30, 2018. The District purchased a new communication/security system for $83,514, replaced a roof for $33,400, a new copier for $14,849 and other equipment and improvements totaling $21,539. 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 and other postemployment benefits liabilities. The amount accrued for compensated absences increased $672 during the year to $49,709. The net pension liability was $3,566,205 while the net other postemployment benefits liability was $1,221,474 at June 30, 2018.

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:

- The District has emerged from deficit. We begin this fiscal year with a positive fund equity of over $17,000.

- 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. Over the past three years, we have experienced small incremental increases in Mackinaw and Wawatam Townships.

- The District is encouraged by some of the business expansion proposals that have begun construction within the community. Any expansion would directly benefit the District financially through increased property taxes.

- Enbridge Energy pipeline continues to be of concern that the District continues to monitor. If the pipeline is shutdown, it will have a significant financial impact upon the District.

- The Odawa Casino has opened up. The District will be eligible for part of the two percent monies that the casino is required to contribute to the local governmental agencies. This revenue will start small and gradually build over time.

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, 2018

ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$	494,814
Accounts Receivable		54
Due from Other Governmental Units		49,215
Prepaid Expenditures		11,281
Total Current Assets		555,364
NON CURRENT ASSETS		
Capital Assets		4,004,601
Less Accumulated Depreciation		(2,865,590)
Total Non Current Assets		1,139,011
TOTAL ASSETS		1,694,375
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows of Resources Related to Pensions		772,811
Deferred Outflows of Resources Related to Other Postemployment Benefits		75,482
TOTAL DEFERRED OUTFLOWS OF RESOURCES		848,293
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable		43,412
Salaries and Benefits Payable		187,889
Total Current Liabilities		231,301
NON CURRENT LIABILITIES		
Compensated Absences		49,709
Net Pension Liability		3,566,205
Net Other Postemployment Benefits Liability		1,221,474
Total Non Current Liabilities		4,837,388
TOTAL LIABILITIES		5,068,689
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows of Resources Related to Pensions		511,056
Deferred Inflows of Resources Related to Other Postemployment Benefits		41,295
TOTAL DEFERRED INFLOWS OF RESOURCES		552,351
NET POSITION		
Net Investment in Capital Assets		1,139,011
Restricted for Capital Projects		305,425
Restricted for Food Service		906
Unrestricted - (Deficit)		(4,523,714)
TOTAL NET POSITION	$	(3,078,372)

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, 2018

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS & CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES: NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
GOVERNMENTAL ACTIVITIES					
Instruction	$ 1,576,708	$ 0	$ 268,830	$ 0	$ (1,307,878)
Supporting Services	661,709	14,598	89,675	0	(557,436)
Community Services	119	0	119	0	0
Facilities Acquisition	13,950	0	377	6,000	(7,573)
Food Service	20,826	2,800	16,135	0	(1,891)
Unallocated Depreciation	65,064	0	0	0	(65,064)
TOTAL GOVERNMENTAL ACTIVITIES	$ 2,338,376	$ 17,398	$ 375,136	6,000	(1,939,842)
GENERAL REVENUES					
Property Taxes - General Purposes					2,256,203
Property Taxes - Capital Projects					121,040
Investment Earnings					986
State Sources					12,633
Other					8,154
Total General Revenues					2,399,016
Change in Net Position					459,174
NET POSITION - Beginning of Year (Deficit) - As Restated					(3,537,546)
NET POSITION - End of Year (Deficit)					$ (3,078,372)

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, 2018

	GENERAL FUND	SINKING FUND	NON-MAJOR FOOD SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and Cash Equivalents	$ 194,369	$ 299,775	$ 670	$ 494,814
Accounts Receivable	0	0	54	54
Due from Other Governmental Units	49,033	0	182	49,215
Prepaid Expenditures	5,631	5,650	0	11,281
TOTAL ASSETS	$ 249,033	$ 305,425	$ 906	$ 555,364
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	$ 43,412	$ 0	$ 0	$ 43,412
Salaries and Benefits Payable	187,889	0	0	187,889
Total Liabilities	231,301	0	0	231,301
FUND BALANCES				
Nonspendable, Prepaid Expenditures	5,954	5,650	0	11,604
Restricted for Capital Projects	0	299,775	0	299,775
Restricted for Food Service	0	0	906	906
Unassigned	11,778	0	0	11,778
Total Fund Balances	17,732	305,425	906	324,063
TOTAL LIABILITIES AND FUND BALANCES	$ 249,033	$ 305,425	$ 906	$ 555,364

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

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

JUNE 30, 2018

Total Governmental Fund Balances		$ 324,063
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	$ 4,004,601	
Accumulated depreciation is	(2,865,590)	1,139,011
Deferred outflows and inflows of resources related to pensions and other postemployment benefits are applicable to future periods and therefore, are not reported in the funds.		
Deferred Outflows of Resources Related to Pensions and Other Postemployment Benefits		848,293
Deferred Inflows of Resources Related to Pensions and Other Postemployment Benefits		(552,351)
Long-term liabilities are not due and payable in the current period and are not reported in the funds.		
Net Pension Liability		(3,566,205)
Net Other Postemployment Benefits Liability		(1,221,474)
Compensated Absences		(49,709)
NET POSITION OF GOVERNMENTAL ACTIVITIES		$ (3,078,372)

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, 2018

	GENERAL FUND	SINKING FUND	NON-MAJOR FOOD SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Local Sources	$ 2,279,678	$ 127,678	$ 2,802	$ 2,410,158
State Sources	273,658	0	1,249	274,907
Federal Sources	58,870	0	14,886	73,756
Incoming Transfers and Other Transactions	40,777	0	0	40,777
Total Revenues	2,652,983	127,678	18,937	2,799,598
EXPENDITURES				
Instruction				
Basic Programs	1,413,465	0	0	1,413,465
Added Needs	199,514	0	0	199,514
Supporting Services				
Pupil	41,287	0	0	41,287
Instructional Staff	42,778	0	0	42,778
General Administration	242,924	0	0	242,924
School Administration	16,853	0	0	16,853
Business	29,626	0	0	29,626
Operation and Maintenance	159,434	0	0	159,434
Pupil Transportation Services	50,244	0	0	50,244
Central	11,678	107,285	0	118,963
Athletic Activities	76,953	0	0	76,953
Community Services				
Community Activities	119	0	0	119
Facilities Acquisition, Construction and Improvements				
Building Improvement Services	0	68,889	0	68,889
Food Service	0	0	20,826	20,826
Total Expenditures	2,284,875	176,174	20,826	2,481,875
Excess (Deficiency) of Revenues Over Expenditures	368,108	(48,496)	(1,889)	317,723
OTHER FINANCING SOURCES (USES)				
Transfers In	0	0	2,400	2,400
Transfers Out	(2,400)	0	0	(2,400)
Total Other Financing Sources (Uses)	(2,400)	0	2,400	0
Net Change in Fund Balance	365,708	(48,496)	511	317,723
FUND BALANCE - Beginning of Year - (Deficit)	(347,976)	353,921	395	6,340
FUND BALANCE - End of Year	$ 17,732	$ 305,425	$ 906	$ 324,063

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, 2018

Net Change in Fund Balances Total Governmental Funds	$ 317,723
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlay as expenditures. In the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(65,064)
Capital Outlay	153,302
Governmental funds report District pension and other postemployment benefits contributions as expenditures. However, in the Statement of Activities, the cost of pension and other postemployment benefits earned net of employee contributions is reported as expense.	
Change in Pension and Other Postemployment Benefits Related Items	55,933
Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to Section 147 C pension and other postemployment benefits contributions subsequent to the measurement date.	
Change in State Funding Related to Pensions and Other Postemployment Benefits	(2,048)
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	49,037
Compensated Absences - End of Year	(49,709)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 459,174

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, 2018

	AGENCY FUND
ASSETS	
Cash and Cash Equivalents	$ 17,234
LIABILITIES	
Due to Groups and Organizations	17,234
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 21, 2017, 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

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 does not have any unearned revenue as of June 30, 2018.

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 related to its pension and other postemployment benefits plan, which are discussed in Note 2-I and 2-J of this report.

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 related to its pension and other postemployment benefits plan, which are discussed in Note 2-I and 2-J of this report.

9. Defined Benefit Plans

For purposes of measuring the net pension and other postemployment benefit liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pension and other postemployment benefits 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, 2018, 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	0.7500

NOTE 2 – 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, 2018, the District's bank balance was $542,783.

$292,783 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. The risk is spread amongst the District's various funds. 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 $17,234	$ 512,048

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

	Total
Cash - Fiduciary Funds	$ 17,234
Cash - District-Wide	494,814
	$ 512,048

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	Service Fund	Total
Receivables			
Accounts Receivable	$ 0	$ 54	$ 54
Due from Other Governments	49,033	182	49,215
TOTAL	$ 49,033	$ 236	$ 49,269

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, 2018, were as follows:

	GENERAL FUND
Salaries	$ 129,959
Employee Benefits	57,930
Total accrued liabilities	$ 187,889

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, 2018:

	Balance July 1, 2017	Increases	(Decreases)	Balance June 30, 2018	Due Within Year
Compensated Absences	$ 49,037	$ 9,400	$ (8,728)	$ 49,709	$ 0
Net Pension Liability	3,394,306	494,681	(322,782)	3,566,205	0
Net Other Postemployment Benefits Liability	1,288,385	40,477	(107,388)	1,221,474	0
Total	$ 4,731,728	$ 544,558	$ (438,898)	$ 4,837,388	$ 0

The annual requirements to amortize the compensated absences and the pension and other postemployment benefits liabilities are uncertain because it is unknown when the repayments will be made. Compensated absences and the pension and other postemployment benefits liabilities will be paid by the General Fund.

E. Short-Term Debt

On July 6, 2017, the District issued a Tax Anticipation Note in the amount of $100,000. The note matured on November 1, 2017, 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 $675. The balance at June 30, 2018 was $0.

The following is a summary of the Short-Term Debt transactions for the District for the year ended June 30, 2018:

Short-Term Debt at July 1, 2017	$ 0
New Debt Issued	100,000
Debt Retired and Paid	(100,000)
Short-Term Debt at June 30, 2018	$ 0

F. Interfund Receivables, Payables, and Transfers

Interfund balances result 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. There were no interfund receivables and payables as of June 30, 2018.

	TRANSFERS IN	TRANSFERS OUT
General Fund	$ 0	$ 2,400
School Service Fund - Food Service Fund	2,400	0
	$ 2,400	$ 2,400

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, 2017	Additions	Deletions	Balance June 30, 2018
Assets not being depreciated				
Land	$ 33,000	$ 0	$ 0	$ 33,000
Assets being depreciated				
Land Improvements	531,829	0	0	531,829
Buildings and Building Improvements	2,471,772	127,327	0	2,599,099
Buses and Other Vehicles	205,570	0	0	205,570
Furniture and Equipment	609,128	25,975	0	635,103
Subtotal	3,818,299	153,302	0	3,971,601
Accumulated Depreciation				
Land Improvements	490,025	3,241	0	493,266
Buildings and Building Improvements	1,525,046	55,123	0	1,580,169
Buses and Other Vehicles	205,570	0	0	205,570
Furniture and Equipment	579,885	6,700	0	586,585
Subtotal	2,800,526	65,064	0	2,865,590
Net capital assets being depreciated	1,017,773	88,238	0	1,106,011
Net capital assets	$ 1,050,773	$ 88,238	$ 0	$ 1,139,011

Depreciation for the fiscal year ended June 30, 2018, amounted to $65,064. 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 Postemployment 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. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at www://Michigan.gov/mpsers-cafr.

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.

Benefit Provisions - Overall

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	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined Contribution	Open

Benefits Provided - Pension

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. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Pension Reform 2010

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

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 February 1, 2013.

Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

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

Option 1 – Members voluntarily elected to increase their contributions to the pension fund as noted below and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until terminate public school employment.

- Basic plan members: 4% contribution

- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

Option 2 – Members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service their after would include a 1.25% pension factor.

Option 3 – Members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4 – Members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to the tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 accounts. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and final average compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

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.

Pension Reform of 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closes the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan is 6%. Further, the law provides that, under certain conditions, the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The law includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Benefits Provided – Other Postemployment Benefit (OPEB)

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. 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 healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members), the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus, plan members), have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

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 subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) accounts.

Regular Retirement (no reduction factor for age)

Eligibility – A basic plan member may retire at age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

Annual Amount – The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012.

Members Contributions

Depending on the plan selected, member contributions range from 0% to 7% for pension and 0% to 3% for other postemployment benefits. Plan members electing the defined contribution plan are not required to make additional contributions.

Employer Contributions

Employers 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 September 30, 2016 valuation will be amortized over a 22-year period for fiscal 2017.

School districts' contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

	Pension	Other Postemployment Benefit
October 1, 2016 - September 30, 2017	15.27% - 19.03%	5.69% - 5.91%
October 1, 2017 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%

The District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately $345,658.

The District's OPEB contributions for the year ended June 30, 2018 were approximately $81,103.

These amounts for both pension and OPEB, include contributions funded from state revenue Section 147c restricted to fund MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (100% for pension and 0% for OPEB).

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

Pension Liabilities

At June 30, 2018, the District reported a liability of $3,566,205 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2016 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, 2017 and 2016, the District's proportion was 0.0137616% and 0.0136049%.

MPSERS (Plan) Non-university Employers Net Pension Liability – As of September 30, 2017 and September 30, 2016

	September 30, 2017	September 30, 2016
Total Pension Liability	$ 72,407,218,688	$ 67,917,445,078
Plan Fiduciary Net Position	46,492,967,573	42,968,263,308
Net Pension Liability	$ 25,914,251,115	$ 24,949,181,770
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	64.21%	63.27%
Net Pension Liability as a Percentage of Covered Payroll	309.13%	295.81%

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

For the year ended June 30, 2018, the District recognized total pension expense of $147,116. 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, 2018, 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	$ 30,993	$ 17,499
Changes of assumptions	390,706	0
Net difference between projected and actual earnings on pension plan investments	0	170,488
Changes in proportion and differences between District contributions and proportionate share of contributions	32,196	179,314
District section 147c revenue related to pension contributions subsequent to the measurement date	0	143,755
District contributions subsequent to the measurement date	318,916	0
Total	$ 772,811	$ 511,056

$318,916 reported as deferred outflows of resources and $143,755 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, 2019. 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	$ (17,593)
2019	60,740
2020	46,693
2021	(3,246)
	$ 86,594

J. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB Liabilities

At June 30, 2018, the District reported a liability of $1,221,474 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017, the District's proportion was 0.0137934%.

MPSERS (Plan) Non-University Employers Net OPEB Liability – As of September 30, 2017 and September 30, 2016

	September 30, 2017	September 30, 2016
Total OPEB Liability	$ 13,920,945,991	$ 14,071,279,615
Plan Fiduciary Net Position	5,065,474,948	4,730,719,539
Net OPEB Liability	$ 8,855,471,043	$ 9,340,560,076
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	36.39%	33.62%
Net OPEB Liability as a Percentage of Covered Payroll	105.64%	Unknown

OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized total OPEB expense of $79,957.

At June 30, 2018 the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 0	$ 13,005
Net difference between projected and actual earnings on OPEB plan investments	0	28,290
Changes in proportion and differences between District contributions and proportionate share of contributions	58	0
District contributions subsequent to the measurement date	75,424	0
Total	$ 75,482	$ 41,295

$75,424 reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources (+) and deferred inflows of resources (-) related to OPEB will be recognized in OPEB expense as follows:

Year Ended September 30,		Amount
2018	$	(9,966)
2019		(9,966)
2020		(9,966)
2021		(9,966)
2022		(1,373)
	$	(41,237)

K. Actuarial Valuations and Assumptions of the Pension Plan and OPEB Plans

Investment rate of return for Pension – 7.5% a year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus Plan).

Investment rate of return for OPEB – 7.5% a year, compounded annually net of investment and administrative expenses.

Salary increases - The rate of pay increase used for individual members is 3.5%.

Inflation – 3.0%

Mortality assumptions - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2025 using projection scale BB (for men, 80% of the table rates were used and for women, 70% of the table rates were used).

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2016. 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 long-term expected rate of return on pension and other postemployment benefit plan investments - The pension rate was 7.5% (7% Pension Plus Plan), and the other postemployment benefit rate was 7.5%, net of investment and administrative expenses 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.

Cost of Living Pension Adjustments – 3.0% annual non-compounded for MIP members.

Healthcare cost trend rate for other postemployment benefit – 7.5% for year one and graded to 3.5% to year twelve.

Additional assumptions for other postemployment benefit only – Applies to individuals hired before September 4, 2012:

Opt Out Assumption – 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.

Survivor Coverage – 80% of male retirees and 67% of female retirees are assumed to have coverage continuing after the retiree's death.

Coverage Election at Retirement – 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

The target asset allocation at September 30, 2017 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Investment Category	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Domestic Equity Pools	28.00%	5.60%
Alternative Investment Pools	18.00%	8.70%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	-0.10%
Real Estate & Infrastructure Pools	10.00%	4.20%
Absolute Return Pools	15.50%	5.00%
Short-Term Investment Pools	2.00%	-0.90%
	100%	

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

Pension Discount Rate

A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan). This discount rate was based on the long-term expected rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will 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.

OPEB Discount Rate

The discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. 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 school districts contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was project to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the District's proportionate share of the net pension liability, calculated using the discount rate of 7.5% (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 than the current rate:

1% Decrease (Non-Hybrid/Hybrid) 6.5% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 7.5% / 7.0%	1% Increase (Non-Hybrid/Hybrid) 8.5% / 8.0%
$ 4,645,579	$ 3,566,205	$ 2,657,441

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

The following presents the Reporting Unit's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the Reporting Unit's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

1% Decrease 6.5%	Current Single Discount Rate Assumption 7.5%	1% Increase 8.5%
$ 1,430,699	$ 1,221,474	$ 1,043,907

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the Reporting Unit's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate of 7.5% (decreasing to 3.5%), as well as what the Reporting Unit's proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

1% Decrease (6.5% decreasing to 2.5%	Current Healthcare Cost Trend Rates (7.5% decreasing to 3.5%)	1% Increase (8.5% decreasing to 4.5%)
$ 1,034,424	$ 1,221,474	$ 1,433,856

L. Pension and OPEB Plan Fiduciary Net Position

Detailed information about the pension and OPEB plan’s fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2017 Comprehensive Annual Financial Report.

M. Payables to the Pension and OPEB Plan

As of June 30, 2018, the District is current on all required pension and other postemployment benefit plan payments. As of June 30, 2018, the District reported payables in the amount of $58,879 to the pension and OPEB plan. These amounts represent accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL).

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, 2018, or any of the prior three years.

O. Sinking Fund Tax Levy

In 2017, 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 2017 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. New Accounting Standards

The District implemented the following new pronouncements: GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

GASB Statement No. 75 requires governments that participate in defined benefit other postemployment benefit (OPEB) plans to report in the statements of net position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The Statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

The restatement of the beginning of the year net position is as follows:

Net Position - Governmental Activities - As Previously Reported, June 30, 2017	$ (2,310,682)
Adoption of GASB Statement 75:	
Net Other Postemployment Benefit Liability	(1,288,385)
Deferred Outflows Related to Other Postemployment Benefits	99,952
Deferred Inflows Related to Other Postemployment Benefits	(38,431)
Net Position - Governmental Activities - Restated as of June 30, 2017	$ (3,537,546)

R. Upcoming Accounting Pronouncements

The District is currently evaluating the impact these standards will have on the financial statements when adopted.

Governmental Account Standards Board (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.

Governmental Account Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the District's 2021 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2018

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Local Sources	$ 2,229,497	$ 2,281,151	$ 2,279,678
State Sources	206,602	272,699	273,658
Federal Sources	49,909	53,199	58,870
Incoming Transfers and Other Transactions	36,940	40,925	40,777
Total Revenues	2,522,948	2,647,974	2,652,983
EXPENDITURES			
Instruction			
Basic Programs	1,434,457	1,417,212	1,413,465
Added Needs	184,751	200,901	199,514
Supporting Services			
Pupil	37,253	42,294	41,287
Instructional Staff	30,326	51,378	42,778
General Administration	257,944	246,641	242,924
School Administration	17,438	17,038	16,853
Business	34,784	31,191	29,626
Operation and Maintenance	163,882	163,687	159,434
Pupil Transportation Services	43,941	52,401	50,244
Support Services - Central	14,842	11,920	11,678
Support Services - Other	84,724	77,944	76,953
Community Services	520	120	119
Total Expenditures	2,304,862	2,312,727	2,284,875
Excess (Deficiency) of Revenues Over Expenditures	218,086	335,247	368,108
OTHER FINANCING SOURCES (USES)			
Transfers Out	(8,500)	(2,500)	(2,400)
Net Change in Fund Balance	209,586	332,747	365,708
FUND BALANCE - Beginning of Year - (Deficit)	(347,377)	(347,976)	(347,976)
FUND BALANCE - End of Year - (Deficit)	$ (137,791)	$ (15,229)	$ 17,732

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 PLAN YEAR)
JUNE 30, 2018

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of net pension liability (%)							0.01376%	0.01360%	0.01408%	0.01540%
District's proportionate share of net pension liability							$ 3,566,205	$ 3,394,306	$ 3,438,006	$ 3,391,015
District's covered payroll							1,195,286	1,156,668	1,178,153	1,336,596
District's proportionate share of net pension liability as a percentage of its covered payroll							298.36%	293.46%	291.81%	253.71%
Plan fiduciary net position as a percentage of total pension liability							64.21%	63.27%	63.17%	66.20%

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)
JUNE 30, 2018

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contributions							$ 345,658	$ 329,609	$ 319,495	$ 275,018
Contributions in relation to statutorily required contributions *							345,658	329,609	319,495	275,018
Contribution deficiency (excess)							$ 0	$ 0	$ 0	$ 0
Covered payroll							$ 1,123,501	$ 1,234,256	$ 1,135,146	$ 1,209,211
Contributions as a percentage of covered payroll							30.77%	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.

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OTHER POSTEMPLOYMENT BENEFIT LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH PLAN YEAR)
JUNE 30, 2018

	2026	2025	2024	2023	2022	2021	2020	2019	2018	2017
District's proportion of net OPEB liability (%)										0.0137934%
District's proportionate share of net OPEB liability										$ 1,221,474
District's covered payroll										1,195,286
District's proportionate share of net OPEB liability as a percentage of its covered payroll										102.19%
Plan fiduciary net position as a percentage of total OPEB liability										36.39%

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)
JUNE 30, 2018

	2027	2026	2025	2024	2023	2022	2021	2020	2019	2018
Statutorily required contributions										$ 81,103
Contributions in relation to statutorily required contributions *										81,103
Contribution deficiency (excess)										$ 0
Covered payroll										$ 1,123,501
Contributions as a percentage of covered payroll										7.22%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED JUNE 30, 2018

A. Changes of Benefit Terms:

There were no changes of benefit terms for the plan year ended September 30, 2017.

B. Changes of Assumptions:

There were no changes of assumptions for the plan year ended September 30, 2017.

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

CERTIFIED PUBLIC ACCOUNTANTS
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www.bcbcpa.com

August 17, 2018

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, 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, 2018, 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 17, 2018.

Internal Control Over Financial Reporting

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

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

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

2018-001

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.

2018-002

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: The District has been in a deficit for numerous years. The budget adopted is an accurate reflection of the financial status of the District.

Effect: The Districted operated during 2017-18 with a deficit in the General Fund.

Recommendation: Since the District is out of a deficit as of June 30, 2018, we recommend that the budget accurately reflects that.

View of Responsible Officials: The District emerged from a deficit in 2017-18. The 2018-19 budget does not reflect a deficit.

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

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CORRECTIVE ACTION PLAN

JUNE 30, 2018

Finding 2018-001: 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 2018-002: Material Noncompliance Financial Statement Finding

Condition: The District budgeted for a deficit fund balance for the year ended June 30, 2018.

Corrective Steps Taken: As of June 30, 2018, the District has emerged from a deficit. The budget adopted for June 30, 2019 does indicate a deficit situation.

MACKINAW CITY PUBLIC SCHOOLS
MACKINAW CITY, MICHIGAN 49701

JEFFREY S. CURTH
Superintendent

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CORRECTIVE ACTION PLAN

JUNE 30, 2018

Corrective Steps to be Taken: None necessary.

Monitoring: None necessary.

Reasons Corrective Action Plan Not Necessary: None.

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

Questioned Costs Related to this Finding: None.