

Mid Peninsula School District

Audited Financial Statements and
Additional Supplemental Information

For the Year Ended

June 30, 2017

Mid Peninsula School District
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To the Board of Education
Mid Peninsula School District
Rock, Michigan

INDEPENDENT AUDITOR'S REPORT

REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Mid Peninsula School District, Rock, Michigan as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the School District 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 of 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 judgement, including the assessment of the risks of material misstatement of the financial statements which, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the School District 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 School District 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 evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

OPINION

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Mid Peninsula School District as of June 30, 2017, and the respective changes in financial position where applicable, thereof for the year then ended, accordance with accounting principles generally accepted in the United States of America.

OTHER – MATTERS

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page 3-7, Budgetary Comparison Schedules on page 32, Schedule of Mid Peninsula School District Contributions on page 33 and Schedule of Mid Peninsula School District Proportionate Share of the Net Pension Liability on page 34, 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 response to my inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mid Peninsula School District, Rock, Michigan, basic financial statements. The supplemental schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules of general fund revenue and expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the supplemental schedules of general fund revenue and expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENTAL AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report letter dated September 20, 2017, on our consideration of the School District internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mid Peninsula School District internal control over financial reporting and compliance.

Johnson & Rennie LLC

Johnson & Rennie, LLC
Menominee, Michigan
September 20, 2017

Mid Peninsula School District
Management's Discussion and Analysis
Year Ended June 30, 2017

Management's Discussion and Analysis

This section of the Mid Peninsula School District's annual financial report presents our discussion and analysis of the School District's performance during the year ended June 30, 2017. It is to be read in conjunction with the School District's financial statements, which immediately follow this section.

Generally accepted accounting principles (GAAP) according to GASB 34 require the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements. These statements are organized so the reader can understand the Mid Peninsula School District financially as a whole. The District-wide Financial Statements provide information about the activities of the whole School District presenting both an aggregate view of the School District's finances and a long-term view of those finances. The Fund Financial Statements provide the next level of detail. For governmental activities these statements tell how services were financed in the short-term as well as what remains for future spending. The fund Financial Statements look at the School District's operations in more detail than in the government-wide financial statements by providing information about the School District's most significant fund, the General Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about the activities for which the School District acts solely as an agent for the benefit of students and parents.

Financial Section

Basic Financial Statements

- District-wide Financial Statements

Fund Financial Statements

- Balance Sheet – Governmental Funds
- Statement of Revenues, Expenditures
- Statement of Fiduciary Net Position
- Notes to Financial Statements

Required Supplemental Information

- Budgetary Comparison Schedule
- Schedule of Contributions
- Schedule of Proportionate Share of the Net Pension Liability

Other Supplemental Information

- General Fund Schedule of Revenue
- General Fund Schedule of Expenditures

Management's Discussion and Analysis (continued)

The School District as a Whole

The following summarized the net position at fiscal year ended June 30, 2016 and June 30, 2017.

	Governmental Activities	
	2017	2016
Assets		
Current Assets	\$ 1,015,507	\$ 909,587
Capital assets	2,372,759	2,567,232
Total Current Assets	<u>3,388,266</u>	<u>3,476,819</u>
Deferred Outflow of Resources - Related to Pensions	<u>482,706</u>	<u>288,273</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 3,870,972</u>	<u>\$ 3,765,092</u>
Liabilities		
Current liabilities	\$ 1,127,270	\$ 993,412
Long-term liabilities	3,332,793	3,953,548
Total Liabilities	<u>4,460,063</u>	<u>4,946,960</u>
Deferred Outflow of Resources - Related to Pensions	<u>113,099</u>	<u>146,366</u>
Net Position		
Invested in property and equipment - net of related debt	1,593,326	1,687,232
Restricted	45,090	62,461
Unrestricted (Deficit)	<u>(2,340,606)</u>	<u>(3,077,927)</u>
Total Net Position (Deficit)	<u>(702,190)</u>	<u>(1,328,234)</u>
Total Liabilities and Net Position	<u>\$ 3,870,972</u>	<u>\$ 3,765,092</u>

The above analysis focuses on the net position. The School District's net position was a deficit of \$702,190 as of June 30, 2017. Capital assets, net of related debt, totaled \$1,593,326. This compares to the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position of \$45,090 is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations. The remaining \$2,340,606 deficit represents the accumulated results of all past years operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

Management's Discussion and Analysis (continued)

The results of this years operations for Mid Peninsula School District as a whole are reported in the statement of activities which show the changes in net position for fiscal year 2016 and 2017.

	Government Activities	
	2017	2,016
Program Revenues		
Charges for services	\$ 42,841	\$ 50,491
Operating grants and contributions	439,103	385,151
Total Program Revenues	<u>481,944</u>	<u>435,642</u>
General Revenues		
Property taxes levied for general operations and CFR	627,399	632,602
Property taxes levied for debt service and CFR	639,336	599,743
State foundation allowance and stabilization	801,217	1,042,119
Other school districts	47,446	-
Other	23,959	2,075
Total General Revenues	<u>2,139,357</u>	<u>2,276,539</u>
Total Revenues	<u>\$ 2,621,301</u>	<u>\$ 2,712,181</u>
Expenses		
Instruction	\$ 916,760	\$ 1,407,742
Support services	678,021	876,893
Depreciation - unallocated	202,406	203,482
Interest on debt	49,137	75,503
Athletics	72,085	78,874
Food services	130,112	142,461
Total Expenses	<u>2,048,521</u>	<u>2,784,955</u>
(Decrease) Increase in Net Position	<u>\$ 572,780</u>	<u>\$ (72,774)</u>

As indicated above, net position increased by \$572,780. This increase relates directly to the operations of the District during the year and increased pension expense liability

Sources of Revenues

Local sources of revenues totaled \$1,338,140 and include revenues to the General Fund of \$719,779.

State sources of revenues total \$1,086,137 and include revenues to the General Fund of \$1,079,937 and School Lunch Fund of \$6,200. State sources of revenue make up 44% of General Fund Revenues. This ties the District directly to the States overall economy.

Federal sources of revenues total \$154,813 and include revenues to the General Fund of \$81,028 and School Lunch Fund of \$73,155.

Expenses

Expenses include instruction of \$916,760, Support Services of \$678,021 and Debt Services of \$49,137. School Lunch Fund and Athletic Fund expenses are included in Support Services. Unallocated depreciation was \$202,406 for the year.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2017 the District had \$5,818,018 invested in a broad range of capital assets, including land, building, furniture and equipment.

	<u>2017</u>	<u>2,016</u>
Assets		
Land	\$ 2,000	\$ 2,000
Land improvements	856,076	856,076
Buildings and land improvements	3,977,117	3,977,117
Vehicles	475,817	475,817
Machinery and equipment	507,008	499,075
Total Assets	<u>5,818,018</u>	<u>5,810,085</u>
Less Accumulated Depreciation	<u>(3,445,259)</u>	<u>(3,242,853)</u>
Net Total	<u>\$ 2,372,759</u>	<u>\$ 2,567,232</u>

There was an increase of \$7,933 for a purchase of a phone system in capital assets last year. Depreciation expense for the year is \$202,406.

Debt

At the end of this year the District has \$665,000 in General Obligation Bonds outstanding. This is a decrease of \$215,000 which is the result of bond payments made during the year.

Economic Factors and Next Year's Budget Rates

The Board of Education and administration consider many factors when setting the School District's 2017 fiscal year budget. Two of the major factors affecting the budget are the student count and the State funding of unrestricted foundation allowance.

The 2017 budget was adopted in June 2016, based on an estimate of students that will be enrolled in September 2017. As a result, District funding is heavily dependent on the state's ability to fund local school operations. Once the final student count and related pupil finding is validated, state law requires the District to amend the budget if actual District resources are not sufficient to fund original appropriations. Since the District's revenue is heavily dependent upon state funding, actual funding depends on the state's ability to collect revenues to fund its appropriations to school districts.

Original vs. Revised Budgets

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, the District amends its budget three times during the School year. The fiscal year 2016-2017, the budget was revised in November, March and June.

General Fund Revenues

Total Revenues - June revision	\$ 1,918,181
Total Revenues - original budget	<u>(1,722,398)</u>
Difference	<u>\$ 195,783</u>

Increase in Revenue Budget

The Districts actual fund revenues were \$37,477 less than the revised budget.

General Fund Expenditures

Total Expenditures - June revision	\$ 1,944,784
Total Expenditures - original budget	<u>(1,802,200)</u>
Difference	<u>\$ 142,584</u>

Increase in Expenditures Budget

The District's actual general fund expenditures were \$90,433 less than the revised budget.

Property Taxes

A significant portion of local revenue is provided from property taxes and CFR for the General Fund and Debt Retirement Fund. Tax revenue totaled \$1,266,735. This amount is obtained through a voter approved 18-mill levy on the taxable value of non-homestead properties for the District's operations and voter approved 8.1 mill levy on the taxable value of all properties, homestead and non-homestead, for debt interest and principal payments.

Unrestricted State Aid Foundation Allowance

The most significant portion of funding to the District is through the foundation allowance. The foundation allowance is funding from the state for each student set annually. The District's foundation allowance is \$7,511 per student for the 2016-2017 fiscal year. The number of students to be funded is calculated by student enrollment blended at 80% of current year September count and 20% of prior year February count. Total blended student enrollment for this fiscal year is 190.48. The overall funding is then reduced by the District's non-homestead tax levy based on 18 mills.

Contacting the District's Financial Management

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the School District's accountability for the money it received. If you have any questions about this report or need additional information, contact the Business Office at Mid Peninsula Area Schools, 5055 St. Nicholas 31st Road, Rock, MI 49880.

Mid Peninsula School District
Statement of Net Position
June 30, 2017

	Activities
ASSETS	
Current Assets	
Cash and investments	\$ 669,879
Due from other Governmental units	342,606
Due from local sources	3,022
Total Current Assets	1,015,507
Non-Current Assets	
Capital assets	5,818,018
Less: accumulated depreciation	(3,445,259)
Total Non-Current Assets	2,372,759
Deferred Outflow of Resources - Employee Retirement System	482,706
Total Assets and Deferred Outflow	\$ 3,870,972
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 91,854
Accrued salaries and benefits	74,359
Accrued interest	4,657
Notes payable	725,000
Loan payable, due within one year	16,400
Bonds payable, due within one year	215,000
Total Current Liabilities	1,127,270
Non-Current Liabilities	
Net pension liability	2,783,760
Bonds payable	450,000
Loan payable	20,753
Notes payable	78,280
Total Non-Current Liabilities	3,332,793
Total Liabilities	4,460,063
Deferred Inflow of Resources	
Unavailable revenue	18,505
Employee retirement system	94,594
Total Deferred Inflow of Resources	113,099
Net Position	
Invested in capital assets, net of related debt	1,593,326
Restricted for debt service	45,090
Unrestricted	(2,340,606)
Total Net Position	(702,190)
Total Liabilities and Net Position	\$ 3,870,972

Mid Peninsula School District
Statement Activities
June 30, 2017

	Program Revenues		Governmental Activities	
Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	
GOVERNMENTAL FUNCTIONS				
Current:				
Instruction	\$ (916,760)	\$ -	\$ 359,748	\$ (557,012)
Supporting services	(678,021)	-	-	(678,021)
Food services	(130,112)	21,460	79,355	(29,297)
Athletics	(72,085)	21,381	-	(50,704)
Interest on long-term debt	(49,137)	-	-	(49,137)
Depreciation (unallocated)	(202,406)	-	-	(202,406)
Total Governmental Functions	\$ (2,048,521)	\$ 42,841	\$ 439,103	\$ (1,566,577)
GENERAL REVENUES				
Property Taxes:				
General purposes				627,399
Debt services				639,336
State aid not restricted for specific purpose				801,217
Other school districts				47,446
Interest and investment earnings				2,446
Other				21,513
Total General Revenues				2,139,357
Change in net position for the year				572,780
Net position at July 1, 2016				(1,328,234)
Prior Period Adjustment - Bus Note				
Overstatement of long-term debt in prior year				53,264
Net Position at June 30, 2017				\$ (702,190)

Mid Peninsula School District
Balance Sheet
Governmental Funds
June 30, 2017

	Major		Non-Major	Total
	General	Debt Service Fund	Special Revenue Food Service	
Assets				
Cash and investments	\$ 624,402	\$ 45,090	\$ 387	\$ 669,879
Accounts receivable	425	-	2,597	3,022
Due from other Governmental units	341,517	-	1,089	342,606
Due from other funds	-	-	5,584	5,584
Prepays	-	-	-	-
Total Assets	\$ 966,344	\$ 45,090	\$ 9,657	\$1,021,091
 Liabilities, Deferred Inflow of Resources and Fund Equity				
Liabilities				
Accounts payable	\$ 89,610	\$ -	\$ 2,244	\$ 91,854
Due to other funds	5,584	-	-	5,584
Accrued salaries and benefits	67,485	-	6,874	74,359
Notes payable	725,000	-	-	725,000
Total Liabilities	887,679	-	9,118	896,797
 Deferred Inflow of Resources				
Unavailable Revenue				
Federal and State Grants	-	-	-	-
 Fund Balance				
Non-spendable prepaids	-	-	-	-
Restricted for debt retirement	-	45,090	-	45,090
Restricted for hot lunch	-	-	539	539
Restricted for Athletics	551	-	-	551
Committed to early retirement incentive	4,279	-	-	4,279
Unassigned	73,835	-	-	73,835
Total Fund Balance	78,665	45,090	539	124,294
 Total Deferred Inflow of Resources and Fund Equity	\$ 966,344	\$ 45,090	\$ 9,657	\$1,021,091

Mid Peninsula School District
Reconciliation of the Governmental Funds
with the Statement of Net Position
June 30, 2017

Total Governmental Fund Balance		\$ 124,294
<i>Amounts Reported for Governmental Activities in the Statement of Net Position Because:</i>		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		
The Cost of Capital Assets are:	\$ 5,818,018	
Accumulated Depreciation is:	<u>(3,445,259)</u>	2,372,759
Long-term liabilities are not due and payable in the current period and are not reported in the funds		
Bonds Payable		(665,000)
School Bond Loan		(78,280)
Note Payable		(37,153)
Accrued interest is not included as a liability in governmental funds		
		(4,657)
Net pension obligations are not due and payable in the current period and therefore, are not reported in the funds		
Net Pension Liability		(2,783,760)
State Aide for Pensions		(94,594)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and therefore, are not reported in the funds		
Deferred Outflows of Resources Related to Pensions		482,706
Deferred Inflows of Resources Related to Pensions		<u>(18,505)</u>
Net Position of Governmental Activities		<u>\$ (702,190)</u>

Mid Peninsula School District
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances Governmental Funds
For the Year Ended
June 30, 2017

	Major		Non-Major	Total
	General Fund	Debt Service Fund	Special Revenue Food Service	
REVENUES				
Local sources	\$ 672,333	\$ 639,742	\$ 21,460	\$ 1,333,535
State sources	1,079,937	-	6,200	1,086,137
Federal sources	81,028	-	73,155	154,183
Other school districts	47,446	-	-	47,446
Total Revenues	<u>1,880,744</u>	<u>639,742</u>	<u>100,815</u>	<u>2,621,301</u>
EXPENDITURES				
Current:				
Instruction	1,096,312	-	-	1,096,312
Supporting service	750,106	-	-	750,106
Food Services	-	-	130,112	130,112
Debt service:				
Principle retirement	-	598,896	-	598,896
Interest	-	51,081	-	51,081
Capital outlay	7,933	-	-	7,933
Total Expenditures	<u>1,854,351</u>	<u>649,977</u>	<u>130,112</u>	<u>2,634,440</u>
Excess of Revenues - Expenditures	26,393	(10,235)	(29,297)	(13,139)
OTHER FINANCE SOURCES (USES)				
Operating transfers in	50,900	-	29,500	80,400
Operating transfers out	(80,400)	-	-	(80,400)
Note payable	(16,829)	-	-	(16,829)
Total Other Finances Sources (Uses)	<u>(46,329)</u>	<u>-</u>	<u>29,500</u>	<u>(16,829)</u>
Excess Revenues and Other Resources Over (Under) Expenditures & Other Uses	(19,936)	(10,235)	203	(29,968)
Fund Balance July 1	98,601	55,325	336	154,262
Fund Balance June 30	<u>\$ 78,665</u>	<u>\$ 45,090</u>	<u>\$ 539</u>	<u>\$ 124,294</u>

Mid Peninsula School District
 Reconciliation of the Statement of Revenues, Expenditures
 and Change in Fund Balances
 to the Statement of Activities
 Year Ended June 30, 2017

Net Changes in Fund Balances - Total Governmental Funds \$ (29,968)

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Governmental Funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	\$ (202,406)	
Capital Outlay	<u>7,933</u>	(194,473)

Accrued interest is recorded in the statement of activities when incurred. It is not reported in the Governmental Funds until paid.		1,421
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Repayments of bond principal are an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).

Loan Repayment		438,391
Bond Payable		215,000
Note Payable		16,121

Prior Period Adjustment - Bus Note		
Overstatement of long-term debt in prior year		(53,264)

In the statement of activities, operating expenses for pension related items are measured by amounts earned during the year while governmental funds report expenditures as amounts paid. This year the amount paid for pension direct pension contributions.		<u>179,552</u>
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Change in Net Position as Governmental Activities		<u><u>\$ 572,780</u></u>
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Mid Peninsula School District
Statement of Fiduciary Net Position
Year Ended June 30, 2017

	Private-Purpose Trust	Agency Fund	Total
ASSETS			
Cash	\$ 323,393	\$ 56,388	\$ 379,781
Total Assets	\$ 323,393	\$ 56,388	\$ 379,781
LIABILITIES			
Due to student groups	\$ -	\$ 56,388	\$ 56,388
Total Liabilities	-	56,388	56,388
NET POSITION			
Reserve for scholarships	323,393	-	323,393
Total Liabilities and Net Position	\$ 323,393	\$ 56,388	\$ 379,781

Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund

REVENUES	
Investment income	\$ 23,424
Total Revenues	23,424
EXPENDITURES	
Scholarships	22,850
Total Expenditures	22,850
Excess Revenue Over (Under) Expenditures	574
Net Position	
Beginning Balance July 1	322,819
Ending Balance June 30	\$ 323,393

Notes to Financial Statements

Mid Peninsula School District
Notes to Financial Statements
June 30, 2017

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Mid Peninsula School District have been prepared as prescribed by the Michigan Department of Education. These policies are in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies.

Reporting Entity

In conformity with generally accepted accounting principles, other autonomously operated governmental organizations are not considered to be part of the School District's entity financial reporting purposes nor is the School District a component unit of another entity. The criteria established for determining the various governmental organizations to be included in the School District's financial statements include oversight responsibility, scope of public service and special financing relationships. Based upon the application of these criteria the financial statements of the School District contain all the funds controlled by the District's Board of Education as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the District.

Basis of Presentation

District-Wide Financial Statements

The School District-wide financial statements (Statement of Net Position and Statement of Activities) report information on all of the activities of the School District except for the fiduciary activities. All of the School District's activities are considered to be governmental activities. Interfund activity including operating transfers between activities and amounts due to and from governmental activities has been eliminated in the School District-wide statements.

Fund-Based Financial Statements

Separate financial statements are provided on the basis of funds, each of which is considered a separate fiscal and accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Governmental as well as fiduciary funds are provided. The various fund types are grouped in the financial statements as major funds or non-major funds. The School District reports the following major governmental fund:

General Fund - is the general operating fund of the School District. The fund is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund - is used to account for the payment of principal and interest on the school building and site bonds payable.

Mid Peninsula School District
Notes to Financial Statements
June 30, 2017

NOTE A **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**
Basis of Presentation (continued)

All other governmental funds are considered to be non-major. They include:

Special Revenue Fund - is used by the School District to account for food services.

Fiduciary Funds

Private-Purpose Trust Fund - is used to account for assets held by the School District in a trustee capacity as administrator of scholarship and other funds under direct control of the School District.

Agency Fund - is used to account for assets held by the School District in its capacity as a receiving and paying agent for the several student body activity groups.

Basis of Accounting

District-Wide Financial Statements

The District-wide financial statements report all financial and capital assets, short and long-term liabilities, revenues, expenses, gains and losses using the economic resources measurement focus and the accrual basis of accounting. All revenue is recorded when earned and expenses are recorded when a liability is incurred.

The statement of Activities reports net cost information based on the School District's functions. Direct expenses are listed by function with program revenues for each function offset against those expenses. Program revenues include charges for services that are fees and other charges to the users or recipients of the services the School District provides. Program revenues also include operating grants and contributions that are restricted for a particular purpose. Property taxes, nonrestricted state aid and other revenues that are not program revenues are reported as general revenues.

Fund-Based Financial Statements

The governmental funds and fiduciary funds are accounted for by using the modified accrual basis of accounting as required by the Michigan Department of Education. Under the modified accrual basis of accounting, revenue is recognized when the revenue is subject to accrual, eligibility requirements are met and the revenues are available to finance expenditures of the fiscal period. Revenue is considered available when the revenue has been collected in the current period or soon enough after the end of the period to use to pay current period liabilities.

Mid Peninsula School District
Notes to Financial Statements
June 30, 2017

NOTE A **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**
Basis of Accounting (continued)

Fund-Based Financial Statements (continued)

The School District considers revenues to be available if collected within 60 days of the end of the period. Expenditures are recorded when the related liability is incurred. Exceptions to this general rule include certain compensated absences and principal and interest on long-term debt, both of which are recognized when due. Property taxes are recognized in the fiscal year for which the taxes have been levied.

Property Taxes

Property taxes attach as an enforceable lien on property as of December 31. Current property taxes are collected for the School District by the Townships of Baldwin, Maple Ridge, Ewing and Turin. School taxes are levied on July 1.

Delinquent real property taxes of the School District are purchased annually by the Counties of Marquette and Delta.

State Foundation Revenue

The State of Michigan follows a foundation grant approach, which provides for a specific annual amount of revenue per student based on a state wide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information regarding average pupil membership supplied by the districts. The funds received in July and August of 2017 are state appropriations for the year ended June 30, 2017, and, as such, are recorded as accounts receivable.

State Categorical Revenue

The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

Federal Revenue

Expenditure-driven grants are recognized as revenue when revenue is available, the qualifying expenditures have been incurred and all other grant requirements have been met.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposit accounts at local financial institutions.

Mid Peninsula School District
Notes to Financial Statements
June 30, 2017

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

State statutes authorize the School 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 a 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; and 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 mature not more than 270 days after the date of purchase. The School District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks and mutual funds composed of investments outlined above.

Short-Term Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet of the fund-based financial statements.

Restricted Assets

Restricted assets consist of cash and cash equivalents of the Debt Services Funds required to be set aside for future bond principal and interest payments.

Inventories and Prepaid Items

Inventories are stated at cost and consist principally of supplies, heating fuel and bus fuel. Inventories 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 items.

Capital Assets and Depreciation

Capital assets include land and improvements, buildings, furniture and fixtures, equipment, school buses and vehicles and are reported in the School District-wide financial statements. Capital assets are defined by the School District as assets with an acquisition cost of more than \$1,000 with an estimated useful life in excess of one year. Assets meeting these criteria are recorded at historical cost or estimated historical costs if the amount is not known. Any donated capital assets are recorded at estimated fair market value at the date of donation. The costs of capital assets are charged to expense using an annual allocation of depreciation expense. Taking the depreciable cost of an asset and dividing that cost by its estimated useful life calculates the annual expense. The expense is recorded on the District-Wide Statement of Activities and included as a direct expense of an identifiable function. Depreciation expense (unallocated) is the amount of depreciation expense that cannot be charged to any particular function.

The capital assets are depreciated using the straight-line method with a half month depreciation taken for assets purchased during the year over the following useful lives (land excluded as not depreciable):

Land improvements	20 years
Building and additions	50 years
Furniture, fixtures and other equipment	10 years
School buses and vehicles	5 - 15 years

Mid Peninsula School District
Notes to Financial Statements
June 30, 2017

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

The liability for accumulated vacation and sick pay amounts is recorded in the District-wide statement of net position.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position and balance sheet 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 future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

Defined Benefit Plan

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

Unemployment Insurance

The School District reimburses the Michigan Employment Security Commission for the actual amount disbursed on behalf of the School District.

Long-Term Obligations

The School District reports long-term debt and other long-term obligations in the District-wide statement of net position. Amounts are recorded at face value along with any accrued interest to June 30, 2017.

Investment in Capital Assets Net of Related Debt

This is a portion of the net position of the School District that consists of capital assets, net of accumulated depreciation and reduced by long-term liabilities for notes, bonds and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted Net Position

Net position is restricted when there are constraints placed on their use by external parties or by statute.

Unrestricted Net Position

Net position not meeting either criteria above or considered unrestricted.

Mid Peninsula School District
Notes to Financial Statements
June 30, 2017

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Balance

In the fund-based financial statements the restricted fund balances represent the amount set aside for constraints placed on them by external creditors or laws of other Governments. The committed fund balances represent the internal reservations by the School District's Board.

The non-spendable balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact.

Use of Estimates

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

Subsequent Events

Management has evaluated subsequent events through the date of the audit report.

NOTE B STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

The School District follows these procedures in establishing the budgetary data reflected in the financial statements for the General and Special Revenue Funds. The School District is not legally required to adopt budgets for the Debt Service Funds.

1. Prior to July 1, the School District Superintendent submits to the Board of Education, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted at a regular meeting by Board of Education approval.
4. Any revisions to the budgeted amounts must be approved by the Board of Education.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. These budgets lapse at the end of each year.
6. Budgeted amounts presented in the financial statements are as originally adopted or as amended by the Board of Education prior to June 30, 2017.

Public Act 621 of 1978 Disclosures

Public Act 621 of 1978 requires local units of government (including School Districts) to prepare and to monitor their fiscal year budgets in accordance therewith. The Act provides that a school district must amend its budget if it becomes apparent that the School Districts actual revenues will deviate from those budgeted or if the School District's expenditures will exceed the amount appropriated. During the year ended June 30, 2017, the School District monitored and amended its budget and was in substantial compliance with the Act.

Mid Peninsula School District
Notes to Financial Statements
June 30, 2017

NOTE B STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

Public Act 275 of 1980 Disclosure

There were no deficits in any of the School District's fund-based financial statements as of June 30, 2017.

NOTE C CASH AND INVESTMENTS

The carrying amount of various deposits presented on the statement of net position as "Cash and Investments" were made in financial institutions whose deposits are covered by federal depository insurance or in a municipal investment fund. All deposits were made in accordance with State of Michigan statutes and under authorization of the Board of Education.

At June 30, 2017, cash and investments on deposit in financial institutions totaled \$702,947, of which \$256,476 was covered by depository insurance and \$446,471 exceeded insurance limits. The School District places its deposits and investments with, what it believes to be, high quality financial institutions. An amount of \$308,789 was deposited in an uninsured municipal fund. The municipal investment funds are not subject to credit risk categorization. The School District places its deposits and investments in uninsured funds, they are, in the opinion of the School District, subject to minimal risk.

NOTE D CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2017 were as follows:

	Balance 7/1/16	Additions	Disposals and Adjustments	Balance 6/30/17
Assets not being Depr:				
Land	\$ 2,000	\$ -	\$ -	2,000
Capital Assets being Depr:				
Bldg & bldg improvement	3,977,117	-	-	3,977,117
Land improvement	856,076	-	-	856,076
Vehicles	475,817	-	-	475,817
Equipment	499,075	7,933	-	507,008
Total	5,810,085	7,933	-	5,818,018
Accumulated Depreciation:				
Bldg & bldg improvement	2,016,368	116,754	-	2,133,122
Land improvement	531,878	41,928	-	573,806
Vehicles	317,821	31,552	-	349,373
Equipment	376,786	12,172	-	388,958
Total	3,242,853	202,406	-	3,445,259
Net Capital Assets	\$ 2,567,232	\$ (194,473)	\$ -	\$ 2,372,759

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

Mid Peninsula School District
Notes to Financial Statements
June 30, 2017

NOTE E LONG-TERM DEBT

Changes in Long-Term Debt are summarized as follows:

	Balance 6/30/16	Additions	Deductions	Balance 6/30/17
Notes payable for:				
School bldg & site bonds	\$ 880,000	\$ -	\$ 215,000	\$ 665,000
Compensated absences	-	-	-	-
Note payable	53,264	-	16,111	37,153
School bond loan fund	463,417	12,992	398,129	78,280
	<u>\$ 1,396,681</u>	<u>\$ 12,992</u>	<u>\$ 629,240</u>	<u>\$ 780,433</u>

School Building and Site Bonds

On July 24, 2008, the School District issued \$1,935,000 of School Building and Site Bonds for renovation of the School. A summary of annual principal and interest requirements to maturity with interest paid November 1 and interest and principal paid May 1 follows:

Maturity	Interest Rate	Principal	Interest Amount		Total
			1-Nov	1-May	
2018	4.100%	\$ 215,000	\$ 13,970	\$ 13,970	\$ 242,940
2019	4.200%	225,000	9,563	9,563	244,126
2020	4.3000%	225,000	4,837	4,837	234,674
		<u>\$ 665,000</u>	<u>\$ 28,370</u>	<u>\$ 28,370</u>	<u>\$ 721,740</u>

Note Payable Bus

The School District has a note payable to First Bank for the purchase of a bus. The loan was originally taken out for \$80,896 and has a 1.49% interest rate.

Maturity	Principal	Interest	Total
2018	\$ 16,400	\$ 429	\$ 16,829
2019	\$ 16,596	\$ 233	\$ 16,829
2020	4,157	50	4,207
	<u>\$ 37,153</u>	<u>\$ 712</u>	<u>\$ 37,865</u>

Mid Peninsula School District
Notes to Financial Statements
June 30, 2017

NOTE E LONG-TERM DEBT (continued)

School Bond Loan Payable

The School bond loan payable in the amount of \$78,280 represents the amount borrowed from the State of Michigan School Bond Loan Fund. This amount was borrowed to assist in the payment of interest on the bonds outstanding. The present rate of interest on June 30, 2017 is 3.13323%. Accrued interest of \$361 is included in the total amount payable on the financial statements.

The debt service requirements for the note payable to Michigan Department of Treasury is not listed above as this note will be repaid as funds become available in the Debt Retirement Fund. Funds will become available as the debt retirement tax levy begins to exceed the debt payment schedule. This will occur for a period of several years making the debt repayment schedule uncertain.

Compensated Absences

Compensated absences consist of amounts due employees for unused accumulated sick pay upon termination of their employment. There were no eligible employees at June 30, 2017.

Aggregate Amounts

The aggregate amounts due on long-term debt excluding employee benefits for following years as follows:

<u>Year Ending June 30</u>		
2018	\$	241,400
2019	\$	241,596
2020	\$	229,157

Mid Peninsula School District
Notes to Financial Statements
June 30, 2017

NOTE F GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM (MPSERS) PENSION PLAN

PLAN DESCRIPTION

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

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

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

Benefits Provided

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

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

Contributions and Funded Status

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

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

Mid Peninsula School District
Notes to Financial Statements
June 30, 2017

NOTE F GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM (MPSERS) PENSION PLAN (continued)

Contributions and Funded Status (continued)

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

Required contributions to the pension plan from Mid Peninsula School District were \$250,552 for the year ended September 30, 2016.

PENSION, LIABILITIES, PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

At June 30, 2017, Mid Peninsula School District reported a liability of \$2,783,760 for its proportionate share of the MPSERS net pension liability. The next pension liability was measured as of September 30, 2016 and the total pension liability used to calculate the net position was determined by an actuarial valuation rolled forward from September 2015. Mid Peninsula School District's proportion of the net pension liability was determined by dividing each employers statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2016, Mid Peninsula School District proportion was .0116 percent, which was an increase of .012 percent from its proportionate measured as of September 30, 2015.

For the year ended June 30, 2017, Mid Peninsula School District's recognized pension expense of \$303,388. At June 30, 2017, Mid Peninsula School District's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Outflows of Resources</u>	<u>Inflows of Resources</u>
Differences between actual and expected experience	\$ 34,693	\$ 6,598
Changes of assumptions	43,522	-
Net difference between projected and actual earnings on pension plan investments	46,266	11,907
Changes in proportion and differences between Mid Peninsula Public Schools contributions and proportionate share of contributions	114,394	-
Mid Peninsula Public Schools contributions subsequent to the measurement date	243,831	-
	<u>\$ 482,706</u>	<u>\$ 18,505</u>

Mid Peninsula School District
Notes to Financial Statements
June 30, 2017

NOTE F GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM (MPSERS) PENSION PLAN (continued)

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses as follows:

Deferred (Inflows) and Deferred Outflow of Resources by Year (to Be Recognized in Future Pension Expenses)

<u>September 30</u>	<u>Amount</u>
2017	\$ 59,983
2018	\$ 56,591
2019	\$ 94,635
2020	\$ 9,161

Actuarial Assumptions

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

Additional information as of the latest actual valuation as follows:

Summary of Actuarial Assumptions

Valuation Date	September 30, 2015
Actuarial Cost Method	Entry Age, Normal
Wage Inflation Rate	3.5%
Investment Rate of Return	
-MIP and Basic Plans (Non-Hybrid)	8.0%
-Pension Plan Plus (Hybrid)	7.0%
Projected Salary Increases	3.5-12.3%, including wage inflation at 3.5%
Cost of Living Pension Adjustments	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Mid Peninsula School District
Notes to Financial Statements
June 30, 2017

NOTE F GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM (MPSERS) PENSION PLAN (continued)

Summary of Actuarial Assumptions (continued)

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.6273 for non-university employers 1.2456 for university employers
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report. www.michigan.gov/mpsers-cafr

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity Pools	28.0%	5.9%
% Alternative Investment Pools	18.0%	9.2%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	0.9%
Real Estate and Infrastructure Pools	10.0%	4.3%
Absolute Return pools	15.5%	6.0%
Short-Term Investment Pools	2.0%	0.0%
TOTAL	100.0%	

* Long-term rate of return does not include 2.1% inflation

Mid Peninsula School District
Notes to Financial Statements
June 30, 2017

NOTE F GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM (MPSERS) PENSION PLAN (continued)

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus Plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus Plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Mid Peninsula School District Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents Mid Peninsula School District proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what Mid Peninsula School District proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid)*	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)*	1% Increase (Non-Hybrid/Hybrid)*
<u>7.0% / 6.0%</u>	<u>8.0% / 7.0%</u>	<u>9.0% / 8.0%</u>
\$3,584,782	\$2,783,760	\$2,108,421

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR. Available at www.michigan.gov/mpsers-cafr

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

At June 30, 2017, the District reported a payable of \$17,936 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

Postemployment Benefits

Under the MPSERS act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare, of the monthly premium amount for the health, dental and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. Members can choose to contribute 3 percent of their covered payroll to the Retiree.

Mid Peninsula School District
Notes to Financial Statements
June 30, 2017

NOTE F GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM (MPSERS) PENSION PLAN (continued)

Postemployment Benefits (continued)

Under the Healthcare Fund members can keep the premium subsidy or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 401(k) account.

NOTE G DEFERRED INFLOW (OUTFLOW) OF RESOURCES

The School District's deferred inflow of resources at June 30, 2017, consisted of:

	Governmental Funds	District-wide Funds
Employee Retirement System	\$ -	\$ 18,505
State aide funding for pensions	-	94,594
	\$ -	\$ 113,099

The School District's deferred outflow of resources at June 30, 2017 consisted of:

	Governmental Funds	District-wide Funds
Employee Retirement System	\$ -	\$ 482,706
	\$ -	\$ 482,706

NOTE H INTERFUND RECEIVABLES AND PAYABLES - FUND BASED FINANCIAL STATEMENTS

The Interfund receivables and payables during the year ending June 30, 2017 were as follows:

	Receivable	Payable
Food Services	\$ 5,584	\$ -
General	-	5,584
	\$ 5,584	\$ 5,584

NOTE I INTERFUND TRANSFERS - FUND BASED FINANCIAL STATEMENTS

The Interfund transfers during the year ending June 30, 2017 were as follows:

	Transfers Out	Transfers In
General	\$ 29,500	\$ -
Hot Lunch	-	29,500
	\$ 29,500	\$ 29,500

Mid Peninsula School District
Notes to Financial Statements
June 30, 2017

NOTE J RISK MANAGEMENT

The School District is exposed to various risks of losses to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District has obtained coverage from commercial insurance companies. The School District has comprehensive general liability coverage of \$25,000 per occurrence and a \$1,000,000 aggregate limit with no deductible amount.

All risk management activities are accounted for in the General Fund and Special Revenue Funds of the School District. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create but for which none have been reported are considered.

Management estimates that the amount or potential claims against the School District as of June 30, 2017 will not materially affect the financial condition of the School District. Therefore, the financial statements contain no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE K OPERATING LEASES

Operating leases consist of rental copy machines and a postal machine. The current year expenditure amounted to \$2,724. The following are the requirements for charges due with the remaining term of the contract:

2018	\$ 2,724
2019	\$ 2,724

NOTE L FUND BALANCES

Portions of the fund balances have been classified to include the District's current plans for accumulating funds for use in subsequent periods as follows:

<u>Non-Spendable</u>		
Inventory	\$	-
Prepays		-
	\$	-
 <u>Committed</u>		
<i>General:</i>		
Compensated absences	\$	4,279
	\$	4,279
 <u>Restricted</u>		
Debt service	\$	45,090
Hot lunch		539
	\$	45,629

Mid Peninsula School District
Notes to Financial Statements
June 30, 2017

NOTE M UNEMPLOYMENT COMPENSATION

Since January 1, 1978, the School District has been a reimbursing employer in accordance with Section 13:(1) of the Michigan Employment Security Act. A reimbursing employer is one who pays to the Michigan Employment Security Commission an amount equal to the full amount of regular benefits, extended benefits and training benefits paid by the Commission that are attributable to service in the Federal Government.

NOTE N STUDENT ACTIVITIES FUND

The Student Activities Fund, although being under the general supervision of the Board of Education, is considered to be the property of the various student groups of the fund and accordingly is not the property of the School District.

NOTE O SHORT-TERM NOTE PAYABLE

A \$725,000 state aide note payable to U.P. State Bank is payable at the rate of .89% and is due June 21, 2018. The purpose of the loan is for School operations for the year in anticipation of monies to be received from the issuer from state school aide.

NOTE P UPCOMING ACCOUNTING PRONOUNCEMENT

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued by the GASB in June 2016 and will be effective for the School District's 2018 fiscal year. The Statement requires governments that participate in defined benefit other than postemployment (OPEB) plans to report in the statement 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 services 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. Statement No. 75 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.

Required Supplemental Information

Mid Peninsula School District
Required Supplemental Information
 Budgetary Comparison Schedule - General Fund
 For the Year Ended June 30, 2017

	Original Budget	Final Amended	Actual	Variance
REVENUE				
Local sources	\$ 368,092	\$ 675,280	\$ 672,333	\$ (2,947)
State sources	1,200,005	1,083,609	1,079,937	(3,672)
Federal sources	154,301	111,854	81,028	(30,826)
Other school districts	-	47,448	47,446	(2)
Total Revenue	<u>1,722,398</u>	<u>1,918,191</u>	<u>1,880,744</u>	<u>(37,447)</u>
EXPENDITURES				
Current:				
Instruction	962,279	1,163,929	1,096,312	67,617
Supporting service	787,149	772,905	750,106	22,799
Debt Service:				
Capital outlay	-	7,950	7,933	17
Total Expenditures	<u>1,749,428</u>	<u>1,944,784</u>	<u>1,854,351</u>	<u>90,433</u>
Excess of Revenues- (Expenditures)	<u>(27,030)</u>	<u>(26,593)</u>	<u>26,393</u>	<u>52,986</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	50,900	50,900	-
Operating transfers out	(52,772)	(99,849)	(80,400)	19,449
Note payable	-	(16,850)	(16,829)	21
Total Other Financing Sources (Uses)	<u>(52,772)</u>	<u>(65,799)</u>	<u>(46,329)</u>	<u>19,470</u>
Excess of Revenues and Other Resources Over (Under) Expenditures & Other Uses	(79,802)	(92,392)	(19,936)	72,456
Fund Balance Beginning of Year	<u>98,601</u>	<u>98,601</u>	<u>98,601</u>	<u>-</u>
Fund Balance End of Year	<u>\$ 18,799</u>	<u>\$ 6,209</u>	<u>\$ 78,665</u>	<u>\$ 72,456</u>

**Schedule of Mid Peninsula School District
Contributions**
Michigan Public School Employees Retirement Plan
Last 10 Reporting Fiscal Years (*Amounts determined as of 6/30 of each year*)

	2018	2017	2016	2015
Statutory required contributions		\$ 149,237	\$ 216,039	\$ 185,797
Contributions in relation to statutory required contributions		149,237	216,039	185,797
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
School's covered employee payroll		\$ 873,022	\$ 911,621	\$ 921,940
Contributions as a percentage of covered employee payroll		17.09%	23.70%	20.15%

	2023	2022	2021	2020	2019
Statutory required contributions					
Contributions in relation to statutory required contributions					
Contribution deficiency (excess)					
School's covered employee payroll					
Contributions as a percentage of covered employee payroll					

Note Disclosures:

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

Change of Benefit Terms - there were no changes in 2016

Change of Assumptions - there were no changes in 2016

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those for which data is available beginning with FYE June 30, 2014.

**Schedule of Mid Peninsula School District
Proportionate Share of the Net Pension Liability**
Michigan Public School Employees Retirement Plan
Last 10 Reporting Fiscal Years *(Amounts determined as of 9/30 of each year)*

	2018	2017	2016	2015	2014
Proportion of net pension liability %			.01116%	.01120%	.01041%
Proportionate share of net pension liability			\$ 2,783,760	\$ 2,735,304	\$ 2,293,712
Covered employee payroll			\$ 932,114	\$ 911,621	\$ 921,490
Proportionate share of net pension liability as a percentage of its covered employee payroll %			295.65%	360.05%	248.91%
Plan fiduciary net position as a percentage of total pension liability			63.27%	63.17%	66.20%

	2023	2022	2021	2020	2019
Proportion of net pension liability %					
Proportionate share of net pension liability					
Covered employee payroll					
Proportionate share of net pension liability as a percentage of its covered employee payroll %					
Plan fiduciary net position as a percentage of total pension liability					

Note Disclosures:

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

Change of Benefit Terms - there were no changes in 2016

Change of Assumptions - there were no changes in 2016

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available beginning with FYE June 30, 2014.

Other Supplemental Information

Mid Peninsula School District
 Budgetary Schedule of Revenues
 General Fund
 For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Local Sources			
Property tax levy		\$ 625,617	
Other taxes		1,782	
Athletics		21,381	
Interest income		2,040	
Miscellaneous income		21,513	
Total Local Sources	<u>675,280</u>	<u>672,333</u>	<u>(2,947)</u>
State Sources			
State Aid - Foundation Grant		801,217	
Other State Aid			
Rate stabilization MPSERS		136,962	
Special education		5,010	
School readiness		86,689	
At Risk grant and miscellaneous		50,059	
Total State Sources	<u>1,083,609</u>	<u>1,079,937</u>	<u>(3,672)</u>
Federal Sources			
Title I		41,154	
Title IIA		38,853	
Miscellaneous		1,021	
Total Federal Sources	<u>111,854</u>	<u>81,028</u>	<u>(30,826)</u>
Other School Districts			
Big Bay		47,446	
Total Other School Districts	<u>47,448</u>	<u>47,446</u>	<u>(2)</u>
TOTAL REVENUES	<u>\$ 1,918,191</u>	<u>\$ 1,880,744</u>	<u>\$ (37,447)</u>

Mid Peninsula School District
 Budgetary Comparison Schedule of Expenditures
 General Fund
 For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
INSTRUCTION BASIC			
Elementary			
Salaries			
Teacher		\$ 239,846	
Teacher substitute		85	
Retirement		107,509	
FICA		17,540	
Health and accident insurance		43,582	
Instructional services		9,678	
Local travel		92	
Equipment repair		3,173	
Workers comp		1,980	
Miscellaneous supplies		3,976	
Total Elementary	<u>447,489</u>	<u>427,461</u>	<u>20,028</u>
Early Literacy			
Salary			
Teacher		1,290	
Retirement		316	
FICA		97	
Total Early Literacy	<u>1,706</u>	<u>1,703</u>	<u>3</u>
Title II Part A			
Teaching supplies		4,965	
Total Title II Part A	<u>10,079</u>	<u>4,965</u>	<u>5,114</u>
High School			
Salaries			
Teacher		185,258	
Teacher aide		4,583	
Teacher substitute		1,701	
Health and accident insurance		30,960	
Retirement		105,504	
FICA		13,482	
Workers comp		1,181	
Instructional services		4,992	
Other professional contracts		8,772	
Local travel		102	
Tuition dual enrollment		12,556	
Equipment repair		3,173	
Payment to other public Schools		21,175	
Supplies and miscellaneous		23,711	
Total High School	<u>423,875</u>	<u>417,150</u>	<u>6,725</u>

Mid Peninsula School District
 Budgetary Comparison Schedule of Expenditures (continued)
 General Fund
 For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Title II Part A			
Teaching supplies		\$ 5,977	
Total Title II Part A	<u>9,000</u>	<u>5,977</u>	<u>3,023</u>
Michigan Readiness			
Salaries			
Teacher		45,034	
Retirement		12,303	
FICA		3,445	
Contracted service		500	
Supplies		1,000	
Miscellaneous		10	
Early childhood specialist		750	
Technology		1,792	
Total Michigan Readiness	<u>74,301</u>	<u>64,834</u>	<u>9,467</u>
Total Instruction Basic	<u>966,450</u>	<u>922,090</u>	<u>44,360</u>
INSTRUCTION ADDED NEEDS			
Special Education			
Salaries			
Teacher		20,474	
Retirement		5,132	
FICA		1,214	
Health and accident insurance		9,548	
Instructional services		786	
Other professional contracts		17,307	
Supplies and miscellaneous		65	
Total Special Education	<u>57,732</u>	<u>54,526</u>	<u>3,206</u>
At Risk			
Salaries			
Teacher		34,150	
Retirement		8,549	
FICA		2,612	
Other professional contracts		3,569	
Supplies and miscellaneous		729	
Total at Risk	<u>49,609</u>	<u>49,609</u>	<u>-</u>

Mid Peninsula School District
 Budgetary Comparison Schedule of Expenditures (continued)
 General Fund
 For the Year Ended June 30, 2017

Title I Part A

Salaries			
Teacher		\$ 24,212	
Retirement		5,937	
FICA		1,739	
Instructional services		555	
Health and accident insurance		5,978	
Parental activities		583	
Miscellaneous supplies		2,150	
Total Title I Part A	<u>58,111</u>	<u>41,154</u>	<u>16,957</u>

Title II Part A

Salary			
Teacher		14,590	
Health and accident insurance		5,397	
Retirement		3,589	
Purchased services		1,500	
Workshop and conferences		320	
Computer assisted instruction		1,400	
FICA		1,116	
Total Title II Part A	<u>31,006</u>	<u>27,912</u>	<u>3,094</u>

Small Rural Schools

Miscellaneous		1,021	
Total Small Rural Schools	<u>1,021</u>	<u>1,021</u>	<u>-</u>

Total Instruction Added Needs

<u>197,479</u>	<u>174,222</u>	<u>23,257</u>
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TOTAL BASIC AND ADDED NEEDS	<u>\$ 1,163,929</u>	<u>\$ 1,096,312</u>	<u>\$ 67,617</u>
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Mid Peninsula School District
 Budgetary Comparison Schedule of Expenditures (continued)
 General Fund
 For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
SUPPORTING SERVICES ADMINISTRATION			
Board of Education			
Board member compensation		2,280	
Legal expense		5,409	
Audit costs		3,195	
Other professional contracts		5,421	
Advertising		6,191	
Dues and fees		1,122	
Miscellaneous expense		299	
Total Board of Education	<u>23,917</u>	<u>23,917</u>	<u>-</u>
Executive Administration			
Salaries			
Superintendent		82,480	
Secretarial		21,618	
Health and accident insurance		6,423	
Other insurance		2,728	
Retirement		22,330	
FICA		7,716	
Local travel		1,625	
Postage		756	
Office supplies		404	
Dues and fees		841	
Miscellaneous expense		2,703	
Total Operations Building Services	<u>153,409</u>	<u>149,624</u>	<u>3,785</u>
Principal			
Salaries			
Principal		71,000	
Other administration salaries		348	
Secretarial		21,619	
Other temporary salaries		2,233	
Health and accident insurance		6,423	
Other insurance		2,916	
Retirement		22,009	
FICA		6,953	
Local travel		653	
Dues and fees		330	
Miscellaneous expense		522	
Other professional contracts		1,248	
Total Principal	<u>142,684</u>	<u>136,254</u>	<u>6,430</u>

Mid Peninsula School District
 Budgetary Comparison Schedule of Expenditures (continued)
 General Fund
 For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Fiscal Services			
Salaries			
Business manager		54,755	
Health and accident insurance		12,845	
Retirement		13,809	
FICA		3,695	
Michigan Readiness - purchased services		3,690	
Total Fiscal Services	<u>91,046</u>	<u>88,794</u>	<u>2,252</u>
Operations Building Services			
Salaries			
Custodial		28,661	
Health and accident insurance		2,792	
Dental and vision insurance		1,133	
Retirement		7,184	
FICA		2,151	
Workers comp		266	
Instructional services		31,183	
Other professional contracts		10,139	
Local travel		45	
Telephone		12,442	
Waste disposal		3,239	
Property/liability insurance		17,913	
Natural gas		15,008	
Electricity		29,312	
Equipment and furniture		7,933	
Michigan Readiness - utilities		4,340	
Miscellaneous supplies		12,368	
Total Operations Building Services	<u>189,370</u>	<u>186,109</u>	<u>3,261</u>
Pupil Transportation			
Other professional contracts		80,733	
Fleet insurance		503	
Michigan Readiness - transportation		13,825	
Total Pupil Transportation	<u>97,665</u>	<u>95,061</u>	<u>2,604</u>

Mid Peninsula School District
 Budgetary Comparison Schedule of Expenditures (continued)
 General Fund
 For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Health Services			
Miscellaneous supplies		410	
Total Health Services	<u>904</u>	<u>410</u>	<u>494</u>
Other Business Services			
Interest expenses notes		5,785	
Total Other Business Services	<u>5,785</u>	<u>5,785</u>	<u>-</u>
Athletics			
Salaries			
Coaching wages		32,568	
Other temporary salaries		6,514	
Retirement		7,908	
FICA		2,982	
Purchased contracts		16,899	
Supplies and materials		907	
Dues and fees		1,600	
Miscellaneous		2,707	
Total Athletics	<u>76,075</u>	<u>72,085</u>	<u>3,990</u>
Total Supporting Services	<u>780,855</u>	<u>758,039</u>	<u>22,816</u>
TOTAL GENERAL FUND EXPENDITURES	<u><u>\$ 1,944,784</u></u>	<u><u>\$ 1,854,351</u></u>	<u><u>\$ 90,433</u></u>

JOHNSON & RENNIE, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Rodney R. Johnson, CPA
Joel T. Rennie, CPA
Carl R. Sorensen, CPA

Members
American Institute of CPA's
Michigan Association of CPA's
Wisconsin Institute of CPA's

**Independent Auditor's Report on Compliance and Internal Control Based on an
Audit of the General Purpose Financial Statements Performed in Accordance with
Government Auditing Standards**

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 Governmental activities, each major fund and the aggregate remaining fund information of Mid Peninsula School District as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise Mid Peninsula School District basic financial statements and have issued our report thereon dated September 20, 2017.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 in the accompanying Schedule of Findings and Responses as items 2017-001 and 2017-002 that we consider to be a significant deficiency.

Compliance and other Matters

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

School's Response to Findings

Mid Peninsula School District response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit Mid Peninsula School District response and, accordingly, we express no opinion on it.

Purpose of this Report

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

This report is intended for the information and use of the Board of Education, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Johnson and Rennie, LLC
Menominee, Michigan
September 20, 2017

Mid Peninsula School District
Schedule of Findings and Responses
For the Year Ended June 30, 2017

#2017-001 - Ability to Prepare Financial Statements and Related Note Disclosures

Criteria: Local units of Government are required to possess the ability to prepare its financial statements and related disclosures in accordance with generally accepted accounting principles.

Condition: Like other local units of Government of similar size, limited financial summaries and abbreviated financial statements are made available for the Members of the Board. The School District relies on its auditor to draft its financial statements and related disclosures in accordance with generally accepted accounting principles. Members of the Board review and accept the financial statements on behalf of the School District.

Cause: The School District does not have staff familiar enough with accounting standards to be able to draft the School District's financial statements and related footnotes.

Recommendation: The hiring of additional personnel to prepare the financial statements would not be cost effective. Members of the Board should remain involved in the financial reporting process to provide oversight and independent review functions.

Response: The School District agrees and will continue to use the auditor's assistance in drafting its financial statements and will remain involved in the financial reporting process.

#2017-002 – Segregation of Duties

Criteria: Local units of Government including School Districts, are required to have a segregation of duties among its accounting department staff in accordance with sound accounting principles.

Condition: As in prior years it was noted that the School District has a lack of segregation of duties. One person handles almost all phases of the accounting and reporting of the School District's finances due to the small number of staff.

Cause: It has been determined not to be cost effective to hire more staff to help eliminate this lack of segregation.

Effect: The effect of this is minimal as the lack of segregation was mitigated by the Superintendent's supervision and the active oversight of the Board.

Recommendation: Although the size of the School District makes complete segregation of duties impossible, we again recommend that the accounting functions be reviewed by management on a regular basis and that the duties be periodically rotated between the staff.

Managements Response: The School District is in the process of cross training accounting staff and duties will be rotated in the absence of accounting personnel. Management will continue to closely monitor the accounting functions.

Mid Peninsula School District
Schedule of Prior Findings and Responses
For the Year Ended June 30, 2017

The School District had no prior year findings.

JOHNSON & RENNIE, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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Members
American Institute of CPA's
Michigan Association of CPA's
Wisconsin Institute of CPA's

September 20, 2017

Mid Peninsula School District
Board of Education
Rock, Michigan

We have audited the financial statements of Mid Peninsula School District, for the year ended June 30, 2017 and have issued our report thereon dated September 20, 2017. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 28, 2017, our responsibility as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement.

As part of our audit we considered the internal control of the School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the School District's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the School District, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated September 20, 2017, regarding our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 20, 2017.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Mid Peninsula School District are described in Note 1 to the financial statements.

We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus.

We noted no significant transactions that have recognized in the financial statements in a different period than when the transaction occurred.

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

The most sensitive estimate affecting the financial statements was the School District's share of the MPSERS pension plan net pension liability recorded on the government-wide statements for the implementation of GASB Statement No. 68. The School District's estimate as of June 30, 2017 is \$4.5 million and is based on data received from the Office of Retirement Services. We evaluated the key factors and assumptions used to develop the liability in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such significant disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial and communicate them to the appropriate level of management.

We did not detect any misstatements as a result of audit procedures.

Significant Finding or Issues

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 20, 2017.

Management Consultations with Other Independent Accountants

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

Very truly yours,

Johnson & Rennie LLC

Johnson & Rennie, LLC
Menominee, Michigan
September 20, 2017