MARCELLUS COMMUNITY SCHOOLS

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2018

GABRIDGE & CO.

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INDEPENDENT AUDITOR'S REPORT

To Management and the Board of Education
Marcellus Community Schools
Marcellus, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marcellus Community Schools (the "School District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 13 to the financial statements, the School District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements 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 combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2018, on 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 and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Gabridge & Company

Gabridge & Company, PLC
Grand Rapids, MI
October 8, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Marcellus Community School's (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2018. It is to be read in conjunction with the School District's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and is intended to provide the financial results for the fiscal year ending June 30, 2018.

For the year ended June 30, 2018, the School District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* These changes are significant at the district-wide level.

Financial Highlights

- For fiscal year ended 2018, the Board of Education adopted a final general fund budget with a projected increase in fund balance of $172,289. The actual results of operation in the general fund showed that actual expenditures were approximately $25,930 less than the final general fund budget and that actual revenues and other financing sources were approximately $19,316 more than the final general fund budget, resulting in an actual increase in fund balance of $217,535.

- At June 30, 2018 the total net position had a deficit balance of $(7,132,766) of which $(10,786,818) was the deficit unrestricted net position, $2,447,682 was the net investment in capital assets and $1,206,370 was restricted for specific purposes.

- The governmental activities total net position increased $583,531from $(7,716,297) as of June 30, 2017 to $(7,132,766) as of June 30, 2018. Refer to the government-wide financial statements – change in net position for fiscal year ended June 30, 2018 and June 30, 2017 for explanations regarding the net position increase.

- At June 30, 2018, the total fund balance for the general fund was $1,561,669.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the School District:

- The first two statements, the statement of net position and the statement of activities, are *district-wide financial statements* that provide both short-term and long-term information about the School District's overall financial status.

- The remaining statements are *fund financial statements* that focus on individual parts of the School District, reporting the School District's operations in more detail than the district-wide statements.
    - *Governmental funds statements* tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
    - *Fiduciary funds statements* provide information about the financial relationships in which the School District acts solely as a trustee or agent for the benefit of others.

The basic financial statements also include the notes to the financial statements that explain the information in the basic financial statements and provide more detailed data. Supplementary information follows and includes combining and individual fund statements, a budgetary comparison schedule for the general fund, and pension and OPEB schedules.

District-wide Financial Statements

The district-wide financial statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School District's assets, deferred inflows / outflows, and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the School District's net position and how they have changed. Net position – the difference between the School District's assets, deferred inflows / outflows, and liabilities - is one way to measure the School District's financial health or position.

Over time, increases or decreases in the School District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the School District's overall health, one should consider additional non-financial factors such as changes in the School District's property tax-base and the condition of school buildings and other facilities.

In the district-wide financial statements, the School District's activities are presented as governmental activities. *Governmental activities* include the School District's basic services, such as regular and special education, instructional support, transportation, administration, community services, food service, and athletics. State aid and property taxes finance most of these activities.

Financial Analysis of the School District as a Whole

The following is a comparative highlight of the current and prior year financial activities from the district-wide financial statements:

	2018	2017
ASSETS		
Current and Other Assets	$ 3,598,744	$ 3,301,487
Capital Assets, net	15,514,024	15,698,900
Total Assets	19,112,768	19,000,387
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charge on Fefunding	11,008	22,016
Pension	1,768,602	1,373,357
OPEB	170,771	170,771
Total Deferred Outflows of Resources	1,950,381	1,566,144
Total Assets and Deferred Outflows of Resources	21,063,149	20,566,531
LIABILIITES		
Current Liabilities	1,587,571	1,423,128
Long-term Liabilities	25,969,917	26,528,690
Total Liabilities	27,557,488	27,951,818
DEFERRED INFLOWS OF RESOURCES		
Pension	525,042	331,010
OPEB	113,385	-
Total Deferred Inflows of Resources	638,427	331,010
Total Liabilities and Deferred Inflows of Resources	28,195,915	28,282,828
NET POSITION		
Net Investment in Capital Assets	2,447,682	1,949,463
Restricted	1,206,370	1,279,695
Unrestricted	(10,786,818)	(10,945,455)
Total Net Position	$ (7,132,766)	$ (7,716,297)

Current and other assets increased from $3,301,487 as of June 30, 2017 to $3,598,744 as of June 30, 2018. This change is a result of the overall increase in net position of $583,531.

The School District's net investment in capital assets increased from $1,949,463 as of June 30, 2017 to $2,447,682 as of June 30, 2018. This is the result of current year capital asset additions outpacing depreciation of the underlying capital assets and the payment of long-term debt that was used to purchase or construct the capital assets.

The results of the fiscal year's operations for the School District as a whole are presented in the statement of activities, which shows the change in total net position for the year.

The statement of activities presents the following changes in net position from operating results:

	2018	2017
Revenues		
Program Revenues		
Charges for Services	$ 203,628	$ 204,439
Operating Grants and Contributions	1,515,338	1,368,507
Total Program Revenues	1,718,966	1,572,946
General Revenues		
Local Sources	2,789,466	2,565,585
Unrestricted State Sources	4,267,232	4,149,363
Other Revenue	16,198	35,949
Total General Revenues	7,072,896	6,750,897
Total Revenues	8,791,862	8,323,843
Expenses		
Instruction	4,244,063	4,230,498
Support Services	2,643,044	2,702,654
Food Services	316,305	296,518
Interest on Long-term Debt	503,466	536,049
Unallocated Depreciation	501,453	226,589
Total Expenses	8,208,331	7,992,308
Change in Net Position	583,531	331,535
Net Position at Beginning of Period	(7,716,297)	(8,047,832)
Net Position at End of Period	$ (7,132,766)	$ (7,716,297)

Revenues increased from $8,323,843 for the year ended June 30, 2017 to $8,791,862 for the year ended June 30, 2018, an increase of $468,019. The primary reason for increased revenues is related to increased property tax revenue of $223,881. Total expenses also increased from $7,992,308 in 2017 to $8,208,331 in 2018, an increase of $216,023. The most significant reason for the increase in expenses is depreciation expense, which increased from $226,589 to $501,453 resulting from over $11,800,000 of capital assets being placed in service during the year.

Fund Financial Statements

The fund financial statements provide more detailed information about the School District's funds, focusing on its most significant or "major" funds - not the School District as a whole. Funds are accounting devices the School District uses to keep track of specific sources of funding and spending on particular programs.

The School District utilizes two kinds of funds:

- *Governmental funds*: Most of the School District's basic services are included in governmental funds, which generally focus on: 1) how cash and other financial assets that can readily be converted to cash flow in and out and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Since the district-wide financial statements and the fund financial statements use different methods of accounting to report the School District's financial condition, a reconciliation is included in the financial statements showing the differences between the two types of statements.

- *Fiduciary funds*: The School District is the trustee, or fiduciary, for assets that belong to others, such as scholarship funds and student activities funds. The School District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The School District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the School District's Funds

The School District uses funds to record and analyze financial information. The School District has four major funds: its general fund, 2014 debt fund, capital projects fund, and sinking fund.

The ***general fund*** is the School District's primary operating fund. The general fund had revenues of $7,199,665, other financing sources of $2,800, and expenditures of $6,984,930. The School District ended the year with an increase of $217,535 in fund balance for a total fund balance of $1,561,669 as of June 30, 2018, up from $1,344,134 as of June 30, 2017. This increase in fund balance is related to the actual revenues and expenditures closely matching the budgeted amounts and both budgeted and actual revenues exceeding expenditures for year.

The ***2014 debt fund*** is used to accumulate resources for the payment of debt service expenditures related to the 2014 building and site improvement bonds. The 2014 debt fund had an increase in fund balance during the year of $61,124, bringing its ending fund balance to $461,191. Given that the debt service millage is intended to service the debt without any surplus, the ending fund balance of the 2014 debt fund will eventually decrease to zero over the life of the bonds.

The ***sinking fund*** tracks expenditures used from the School District's sinking fund millage. Expenditures in this fund must be authorized by the State of Michigan per Section 380.1212 of The Revised School Code (Act 451 of 1976). The total revenues for this fund were $2,777, which was attributed to earnings on deposits. Total expenditures in the fund were $81,803. This number is mainly attributable to building improvements. The decrease in fund balance was $79,026, making the total fund balance in the sinking fund $309,437 as of year-end.

The ***capital projects fund*** is used to track expenditures using funds from the 2014 bond. The capital projects fund had revenues of $3,206. Expenditures for this fund totaled $40,114, which brought the decrease in fund balance to $36,938. After subtracting the current year decrease in fund balance, the ending fund balance was $222,311.

The nonmajor governmental funds had a decrease in fund balance for the year of $18,485 for total nonmajor governmental fund balances of $213,431 as of June 30, 2018, down from $231,916 as of June 30, 2017.

General Fund Budgetary Highlights

During the year the School District revised its budget to attempt to match changes in the school funding environment and current needs of students and faculty. State law requires that budgets be amended during the year so actual expenditures do not exceed appropriations. The initial budget for the year ended June 30, 2018, was adopted by the Board of Education on June 28, 2017.

Original budget compared to final budget. There were amendments made between the original and final budgets as actual activities throughout the year became known to management of the School District.

Final budget compared to actual results. The School District had no significant expenditures in excess of the amounts appropriated in the general fund during the year.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2018, the School District had $15,514,024 invested in capital assets. This included a net decrease during the past fiscal year of $184,876 consisting of depreciation charges of $501,453 and capital asset additions of $316,577.

The School District's current year additions totaled $316,557, primarily in building improvement projects.

More detailed information about the School District's capital assets can be found in the notes to the financial statements section of this document.

Long-term Debt

At year-end, the School District had total long-term liabilities of $13,299,661 all of which were bonds payable (along with the associated bond premiums). The remainder was compensated absences of $172,981.

The School District continued to pay down its debt, retiring $731,859 of outstanding bonds and installment notes payable (reducing the notes payable balance to zero at year-end) during the year.

The School District issued no new debt during the current year.

The State limits the amount of general obligation debt that schools can issue based on the assessed value of all taxable property within a district's boundaries. The School District is well under the State limit as of June 30, 2018.

More detailed information about the School District's long-term debt can be found in the notes to the financial statements section of this document.

Economic Factors and Next Year's Budget and Rates

The projected general appropriations budget for the 2018-2019 fiscal year includes $7,007,816 in total revenues and $6,981,435 in total expenditures, resulting in a projected $26,381 increase in general fund balance. This projected budget is very similar to the current year's actual total revenues of $7,202,465 and actual total expenditures of $6,984,930 in the general fund, and shows the continued effort of the School District to match revenues with expenditures in maintaining a stable fund balance in the general fund.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact:

Marcellus Community Schools
305 W. Arbor Street
Marcellus, MI 49067
Ph | 269.646.7655

BASIC FINANCIAL STATEMENTS

Marcellus Community Schools
Statement of Net Position
June 30, 2018

ASSETS		
Current Assets		
Cash and Investments	$	2,555,974
Due from Other Governmental Units		1,006,308
Inventory		10,422
Prepaid Items		26,040
Total Current Assets		3,598,744
Noncurrent Assets		
Capital Assets not Being Depreciated		172,310
Capital Assets Being Depreciated, net		15,341,714
Total Assets		19,112,768
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charge on Refunding		11,008
Pension		1,768,602
OPEB		170,771
Total Deferred Outflows of Resources		1,950,381
LIABILITIES		
Current Liabilities		
Accounts Payable		209,823
Accrued Liabilities		289,602
Accrued Salaries Payable		423,146
Current Portion of Long-term Debt		665,000
Total Current Liabilities		1,587,571
Noncurrent Liabilities		
Net OPEB Liability		3,353,840
Net Pension Liability		9,808,435
Compensated Absences		172,981
Long-term Debt		12,634,661
Total Liabilities		27,557,488
DEFERRED INFLOWS OF RESOURCES		
Pension		525,042
OPEB		113,385
Total Deferred Inflows of Resources		638,427
NET POSITION		
Net Investment in Capital Assets		2,447,682
Restricted for:		
Food Service		76,802
Debt Service		597,820
Capital Projects		531,748
Unrestricted		(10,786,818)
Total Net Position	$	**(7,132,766)**

The Notes to the Financial Statements are an integral part of these Financial Statements

Marcellus Community Schools
Statement of Activities
For the Year Ended June 30, 2018

		Program Revenues			Net (Expense) Revenue
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Total**
Instruction	$ 4,244,063	$ 370	$ 9,450	$ --	$ (4,234,243)
Supporting Services	2,643,044	132,903	1,221,227	--	(1,288,914)
Food Services	316,305	70,355	284,661	--	38,711
Interest on Long-term Debt	503,466	--	--	--	(503,466)
Unallocated Depreciation	501,453	--	--	--	(501,453)
Total	$ 8,208,331	$ 203,628	$ 1,515,338	$ --	$ (6,489,365)

General Purpose Revenues:	
State Sources	4,267,232
Gain on Sale of Capital Assets	2,800
Property Taxes	2,789,466
Interest and Investment Earnings	13,398
Total General Revenues	7,072,896
Change in Net Position	**583,531**
Net Position at Beginning of Period (Restated, Note 13)	(7,716,297)
Net Position at End of Period	$ **(7,132,766)**

The Notes to the Financial Statements are an integral part of these Financial Statements

Marcellus Community Schools
Balance Sheet
Governmental Funds
June 30, 2018

		Debt Service	Capital Projects			
	General	**2014 Debt Fund**	**Sinking Fund**	**Capital Projects Fund**	**Other Governmental Funds**	**Total Governmental Funds**
ASSETS						
Cash and Investments	$ 1,306,569	$ 460,906	$ 366,794	$ 222,311	$ 199,394	$ 2,555,974
Due from Other Governmental Units	990,366	285	--	--	15,657	1,006,308
Inventory	--	--	--	--	10,422	10,422
Prepaid Items	26,040	--	--	--	--	26,040
Total Assets	**$ 2,322,975**	**$ 461,191**	**$ 366,794**	**$ 222,311**	**$ 225,473**	**$ 3,598,744**
LIABILITIES						
Accounts Payable	$ 140,818	$ --	$ 57,357	$ --	$ 11,648	$ 209,823
Accrued Liabilities	197,342	--	--	--	394	197,736
Accrued Salaries Payable	423,146	--	--	--	--	423,146
Total Liabilities	761,306	--	57,357	--	12,042	830,705
FUND BALANCE						
Nonspendable	26,040	--	--	--	10,422	36,462
Restricted	--	461,191	309,437	222,311	203,009	1,195,948
Assigned	35,000	--	--	--	--	35,000
Unassigned	1,500,629	--	--	--	--	1,500,629
Total Fund Balance	1,561,669	461,191	309,437	222,311	213,431	2,768,039
Total Liabilities and Fund Balance	**$ 2,322,975**	**$ 461,191**	**$ 366,794**	**$ 222,311**	**$ 225,473**	**$ 3,598,744**

The Notes to the Financial Statements are an integral part of these Financial Statements

Marcellus Community Schools
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2018

Total Fund Balance - Governmental Funds	$	2,768,039
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statement. This amount represents capital assets of $23,364,513 less accumulated depreciation of $7,850,489.		15,514,024
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.		(8,564,875)
Deferred charges on refunding related to the issuance of long-term refunding debt will be amortized over the life of the debt on the statement of net position.		11,008
Accrued interest is not due and payable in the current period and, therefore, is not reported in the funds.		(91,866)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. This amount represents the sum of bonds payable, compensated absences, and other loans payable and liabilities.		(13,472,642)
The net OPEB liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.		(3,296,454)
Total Net Position - Governmental Funds	$	**(7,132,766)**

The Notes to the Financial Statements are an integral part of these Financial Statements

Marcellus Community Schools
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2018

		Debt Service	Capital Projects			
	General	**2014 Debt Fund**	**Sinking Fund**	**Capital Projects Fund**	**Other Governmental Funds**	**Total Governmental Funds**
Revenues						
Local Sources	$ 82,114	$ --	$ --	$ 2,968	$ 70,355	$ 155,437
State Sources	5,267,099	--	--	--	9,696	5,276,795
Federal Sources	227,230	--	--	--	274,965	502,195
Property Taxes	1,566,763	611,351	--	--	611,352	2,789,466
Interest and Investment Earnings	4,688	3,633	2,777	238	2,062	13,398
Other Revenues	51,771	--	--	--	--	51,771
Total Revenues	7,199,665	614,984	2,777	3,206	968,430	8,789,062
Expenditures						
Instruction	4,178,058	--	--	--	--	4,178,058
Supporting Services	2,603,502	--	4,489	--	--	2,607,991
Food Services	--	--	--	--	316,305	316,305
Capital Outlay	199,119	--	77,314	40,144	--	316,577
Debt Service - Principal	4,200	25,000	--	--	620,000	649,200
Debt Service - Interest and Other Expenditures	51	528,860	--	--	50,610	579,521
Total Expenditures	6,984,930	553,860	81,803	40,144	986,915	8,647,652
Excess of Revenues Over (Under) Expenditures	214,735	61,124	(79,026)	(36,938)	(18,485)	141,410
Other Financing Sources (Uses)						
Proceeds from Sale of Capital Assets	2,800	--	--	--	--	2,800
Net Other Financing Sources (Uses)	2,800	--	--	--	--	2,800
Net Change in Fund Balance	**217,535**	**61,124**	**(79,026)**	**(36,938)**	**(18,485)**	**144,210**
Fund Balance at Beginning of Period	1,344,134	400,067	388,463	259,249	231,916	2,623,829
Fund Balance at End of Period	$ **1,561,669**	$ **461,191**	$ **309,437**	$ **222,311**	$ **213,431**	$ **2,768,039**

The Notes to the Financial Statements are an integral part of these Financial Statements

Marcellus Community Schools
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance with Statement of Activities
For the Year Ended June 30, 2018

Total Net Change in Fund Balances - Governmental Funds	$	144,210
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This represents current year depreciation expense of $501,453 less capital outlay expenditures of $316,577.		(184,876)
In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.		76,055
Some expenses, such as compensated absences, reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(9,720)
The statement of net position reports the net pension liability and pension related deferrals related to the net pension liability as pension expense. However, the expenditures recorded on the governmental funds equals actual pension contributions.		(161,671)
Repayments of principal on long-term debt are expenditures in the governmental funds, but the repayments reduce the long-term liabilities in the statement of net position.		649,200
The statement of net position reports the net OPEB liability and OPEB related deferrals related to the net OPEB liability as OPEB expense. However, the expenditures recorded on the governmental funds equals actual OPEB contributions.		70,333
Changes in Net Position - Governmental Funds	$	**583,531**

The Notes to the Financial Statements are an integral part of these Financial Statements

Marcellus Community Schools
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Private Purpose Trust	Agency
	Private Purpose Trust Fund	**Agency Fund**
ASSETS		
Cash and Investments	$ 45,115	$ 81,874
Total Assets	45,115	81,874
LIABILITIES		
Due to Agency Fund Activities	--	81,874
Total Liabilities	--	81,874
NET POSITION		
Held in Trust	$ **45,115**	$ **--**

The Notes to the Financial Statements are an integral part of these Financial Statements

Marcellus Community Schools
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Year Ended June 30, 2018

	Private Purpose Trust Fund
Additions	
Interest, Dividends, and Other Investment Gains (Losses)	$ 45
Total Additions	45
Deductions	
Scholarships Awarded	5,000
Total Deductions	5,000
Change in Net Position	**(4,955)**
Net Position at Beginning of Period	50,070
Net Position at End of Period	$ **45,115**

The Notes to the Financial Statements are an integral part of these Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Marcellus Community Schools (the "School District") conform to generally accepted accounting principles as applicable to Schools. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School's significant accounting policies are described below.

Reporting Entity

The Board of Directors, a seven member group, is the level of government which has governance responsibilities over all activities related to public elementary, middle, and high school education within the jurisdiction of the School District. The School District receives funding from state and federal government sources and must comply with the requirements of these funding source entities. The School District has no component units.

District-wide and Fund Financial Statements

The School District's basic financial statements include both District-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all non-fiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The *statement of net position* presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The school's net position is reported in three parts: 1) net investment in capital assets, 2) restricted net position, and 3) unrestricted net position.

The *statement of activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted state aid and other items not properly included among program revenues are reported instead as *general revenues*.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements, the School District has eliminated interfund transactions.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Agency funds also use the accrual basis of accounting, but do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or one year for reimbursement-based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues susceptible to accrual are state aid, federal revenues, and interest income and, accordingly, have been recognized as revenues of the current fiscal year. Other revenues are recognized when received.

The School reports the following major funds:

The ***general fund*** is the general operating fund of the School. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

The ***capital project fund*** is used to record bond proceeds or other revenue and the disbursement of invoices specifically for acquiring new school sites, building, equipment, and for remodeling and repairs. The fund is kept open until the purpose for which the fund was created has been accomplished.

The ***sinking fund*** is used to record the sinking fund property tax levy and other revenue and the disbursement of invoices specifically for acquiring new school sites, construction, or repair of school buildings.

The ***2014 debt fund*** **is** used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt related to the School District's 2014 building and site improvement bonds.

Additionally, the School reports the following fund types:

The ***special revenue funds*** are used to account for the proceeds of specified purposes. The School District's special revenue funds include the food service fund. Operating deficits generated by these activities are generally covered by a transfer from the general fund.

The ***debt service funds*** are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Fiduciary funds Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent. The ***trust funds*** are funds entrusted to the School District for scholarship awards and loans and the principal and interest of the trust may be spent. The ***agency fund*** is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities, and Fund Equity

Cash & Cash Equivalents

The School considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents. Investments are reported at fair value.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as "due to/from other funds" (i.e., the current portion of interfund loans).

All receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. No amounts have been deemed uncollectable during the current year.

Property Taxes

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2018, the rates are as follows per $1,000 of assessed value:

General fund	
Non-principal residence exemption	18.000
Commercial personal property	6.000
Debt service funds	
2014 Debt Fund	3.000
2007 Refunding Debt Fund	3.000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the Counties of Cass, St. Joseph, and Van Buren and remitted to the School District by May 15.

Inventories and Prepaid Items

Inventories are valued at cost, on a first-in, first-out basis. Inventories are recorded as expenditures when consumed rather than when purchased in both the district-wide and fund financial statements.

Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in the governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both the district-wide and fund financial statements.

Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles and furniture, and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of two years and whose costs exceed $5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, buildings and additions, furniture and equipment, and vehicles are depreciated using the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	15 - 50
Equipment and furniture	5 - 50
Buses and other vehicles	5 - 10

Compensated Absences

Sick days are earned by teachers and administrators. Retiring employees who meet certain years of service requirements are paid for accumulated sick days up to a maximum number of days and at a rate determined by their contracts. There is no contractual provision for payment of unused vacation. They may be used for vacation only.

The liability for compensated absences report in the district-wide financial statements consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for employees who currently are eligible to receive termination payments. The amount reported is salary-related and includes fringe benefits.

Long-term Obligations

In the district-wide financial statements, long-term debt, and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bond issuance costs are recorded as a period expense. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Pension

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

Postemployment Benefits Other Than Pensions

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

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources,* represents a consumption of net position that applies to a future (period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School District has three items that qualify for reporting in this category. They are the deferred charge on refunding, pension, and other postemployment benefits related items reporting in the district-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortize over the shorter of the life of the refunded or refunding debt. A deferred outflow is recognized for pension and other postemployment benefit related items. These amounts are expensed in the plan year in which they apply.

Deferred Inflows of Resources

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 a future (period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The School District has three items that qualify for reporting in this category. The first is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension and other postemployment benefit contributions subsequent to the measurement period. The second and third items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary.

Net Position Flow Assumption

Sometimes the School District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and

proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the School District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumptions

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

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either: a) not in spendable form or b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. The School District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

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

Unassigned fund balance is the residual classification for the School District's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the Board of Education.

Use of Estimates

The preparation of financial statements requires estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

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

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between accounts within a function within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations.

Excess of Expenditures over Appropriations

The School District did not incur significant expenditures in budgetary funds which were in excess of the amounts appropriated during the year ended June 30, 2018.

District-wide Deficits

The School District has an unrestricted net position deficit for district-wide activities in the amount of $(10,786,818) as of June 30, 2018.

There are no governmental funds with a deficit.

Compliance with Sinking Funds

The Sinking Fund records capital project activities funded with the Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of section 1212 of the Revised School Code.

Compliance - Bond Proceeds

The capital project fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, management believes the School District has complied, in all material respects, with the applicable provisions of Section 1351a of the Revised School Code. The following is a summary of the revenue and expenditures in the 2014 Capital Project Funds from inception through the current fiscal year:

	2014 Capital Projects Fund
Revenues	$ 12,847,977
Expenditures	12,625,666
Balance	$ 222,311

Note 3 - Cash and Investments

The School District maintains pooled and individual fund demand deposits.

Following is a reconciliation of deposit and investment balances as of June 30, 2018:

Statement of Net Position	
Cash and Investments	$ 2,555,974
Statement of Fiduciary Assets and Liabilities	
Cash and Investments	126,989
Total Deposits and Investments	$ 2,682,963
Deposits and Investments	
Checking and Savings Accounts	$ 2,682,963

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits might not be returned. State law does not require and the School District does not have a policy for deposit custodial credit risk. As of year-end, $1,778,040 of the School District's bank balance of $2,778,040 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the School District believes it is impractical to insure all bank deposits. As a result, the School District evaluates each financial institution with which it deposits School District funds

and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk. Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The School District's investment policy restricts investment maturities to within four years of the date of purchase. In addition, the policy restricts investments in commercial paper, which can only be purchased with no more than a 270-day maturity. The School District's policy does not address other ways to minimize interest rate risk.

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

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

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

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

The School District reports their investments according to the following level:

Michigan Liquid Asset Fund, Level 2:	$1,066,921

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	June 30, 2017	Additions	Reductions	Transfers	June 30, 2018
Capital Assets Not Being Depreciated:					
Land	$ 100,000	$ -	$ -	$ -	$ 100,000
Construction-in-progress	11,838,781	72,310	-	(11,838,781)	72,310
Total Capital Assets not Being Depreciated	11,938,781	72,310	-	(11,838,781)	172,310
Capital Assets Being Depreciated:					
Buildings and improvements	9,353,206	43,709	-	11,838,781	21,235,696
Equipment and furniture	952,346	46,498	-	-	998,844
Buses and other vehicles	803,603	154,060	-	-	957,663
Total Capital Assets Being Depreciated	11,109,155	244,267	-	11,838,781	23,192,203
Less Accumulated Depreciation:					
Buildings and improvements	6,104,843	388,343	-	-	6,493,186
Equipment and furniture	724,878	52,189	-	-	777,067
Buses and other vehicles	519,315	60,921	-	-	580,236
Total Accumulated Depreciation	7,349,036	501,453	-	-	7,850,489
Net Capital Assets Being Depreciated	3,760,119	(257,186)	-	11,838,781	15,341,714
Net Capital Assets	$ 15,698,900	$ (184,876)	$ -	$ -	$ 15,514,024

Depreciation expense for the fiscal year ended June 30, 2018 amounted to $501,453. The School District determined that is was impractical to allocate depreciation expense to the various government activities as the capital assets serve multiple functions.

Note 5 - State Aid Anticipation Note

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the general fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th.

Short-term debt activity for the year was as follows:

	June 30, 2017	Additions	Reductions	June 30, 2018
State aid anticipation note	$ -	$ 350,000	$ 350,000	$ -

Note 6 - Long-term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

The following is a summary of the changes in long-term debt (including current portion) of the School for the year ended June 30, 2018:

	June 30, 2017	Additions	Reductions	June 30, 2018	Due Within One Year
2007 Refunding Bonds - General Obligation	$ 1,235,000	$ -	$ 620,000	$ 615,000	$ 615,000
GW Jones Technology Installment Note	4,200	-	4,200	-	-
2014 Building & Site Bond	11,785,000	-	25,000	11,760,000	50,000
Premium on Bonds	1,007,320	-	82,659	924,661	-
Compensated Absences	163,261	9,720	-	172,981	-
Total Long-term Liabilities	$ 14,194,781	$ 9,720	$ 731,859	$ 13,472,642	$ 665,000

For governmental activities, compensated absences are primarily liquidated by the general fund. The general obligation bonds are payable from the debt service funds. As of year-end, the funds had a balance of $597,820 to pay this debt. Future debt and interest will be payable from future tax levies.

Bonds Payable

General obligation bonds payable at year-end consist of the following:

2007 Refunding Bonds - General Obligation

$2,915,000 serial bond due in annual installments of $615,000 to $620,000 through May 2019 with interest ranging from 4.00% to 5.25%.

2014 Building and Site Bonds

$11,785,000 building and site bonds due in annual installments of $25,000 to $1,105,000 through May 2032 with interest ranging from 4.00% to 5.00%.

Future principal and interest requirements for installment notes and bonds payable are as follows:

June 30,	Principal	Interest	Total
2019	$ 665,000	$ 551,200	$ 1,216,200
2020	695,000	524,100	1,219,100
2021	725,000	489,350	1,214,350
2022	760,000	453,100	1,213,100
2023	795,000	415,100	1,210,100
2024-2028	4,510,000	1,453,400	5,963,400
2029-2032	4,225,000	429,200	4,654,200
Totals:	$ 12,375,000	$ 4,315,450	$ 16,690,450

Compensated Absences

Accrued compensated absences at year-end consist of $172,981 of accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Note 7 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the School District carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District had no unemployment compensation expense for the year ended June 30, 2018. No provision has been made for possible future claims.

Note 8 - Pension Plan

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (System) is a cost sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the Board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at www:michigan.gov/ors schools.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

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 of the System.

Benefits Provided - Overall

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

Plan Name	Plan Type	Plan Status
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined Contribution	Open

Benefits Provided - Pension

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

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

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a

flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

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

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

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

- Basic plan members: 4% contribution

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

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

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

Option 4 - Members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to the tax-deferred 401(k) account and

can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and final average compensation as of the day before their transition date and a 1.5% pension factor).

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

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

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

Pension Reform of 2017

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

Benefits Provided - Other Postemployment Benefit (OPEB)

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members), the subsidy is the maximum allowed by statute. To limit future liabilities of Other

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

Retiree Healthcare Reform of 2012

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) accounts.

Regular Retirement (no reduction factor for age)

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

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

Member Contributions

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

Employer Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary

to finance the coverage of members and retiree Other Postemployment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of September 30, 2016 valuation will be amortized over a 22-year period for fiscal 2017.

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

	Pension	**OPEB**
October 1, 2016 - September 30, 2017	15.27% - 19.03%	5.69% - 5.91%
October 1, 2017 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%

The School District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total of $887,774.
The District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total of $294,858.

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

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

Pension Liabilities

At June 30, 2018, *the School District* reported a liability of $9,808,435 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016 and rolled forward using generally accepted actuarial procedures. The School District's proportion of the net pension liability was determined by dividing each employer's 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, 2017, the School District's

proportion was 0.03785%, which was a decrease of 0.00001% from its proportion measured as of September 30, 2016.

MPSERS (Plan) Non-university Employers	September 30, 2017	September 30, 2016
Total pension liability	$ 72,407,218,688	$ 67,917,445,078
Plan fiduciary net position	46,492,967,573	42,968,263,308
Net pension liability	$ 25,914,251,115	$ 24,949,181,770
Proportionate share	0.03785%	0.03786%
Net pension liability for the School District	$ 9,808,435	$ 9,445,551

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

For the year ending June 30, 2018, the School District recognized pension expense of $1,123,717.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ 85,242	$ 48,128
Changes of assumptions	1,074,592	-
Net difference between projected and actual earnings on pension plan investments	-	468,908
Changes in proportion and differences between Employer contributions and proportionate share of contributions	251,946	8,006
Employer contributions subsequent to the measurement date	356,822	-
Total	**$ 1,768,602**	**$ 525,042**

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, 2019.

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

Plan Year Ended September 30	Amount:
2018	$ 285,745
2019	436,159
2020	185,846
2021	(21,012)

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

OPEB Liabilities

At June 30, 2018, the School District reported a liability of $3,353,840 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was 0.0003787308 percent.

MPSERS (Plan) Non-university Employers	September 30, 2017
Total other postemployment benefits liability	$ 13,920,945,991
Plan fiduciary net position	5,065,474,948
Net other postemployment benefits liability	$ 8,855,471,043
Proportionate share	0.03787%
Net other postemployment benefits liability for the School District	$ 3,353,840

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

For the year ending June 30, 2018, the School District recognized OPEB expense of $224,330.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ -	$ 35,709
Net difference between projected and actual earnings on pension plan investments	-	77,676
Changes in proportion and differences between Employer contributions and proportionate share of contributions	159	-
Employer contributions subsequent to the measurement date	170,612	-
Total	**$ 170,771**	**$ 113,385**

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Plan Year Ended September 30	Amount:
2018	$ (27,365)
2019	(27,365)
2020	(27,365)
2021	(27,365)
2022	(3,766)

Actuarial Assumptions

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

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

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

Inflation **-** 3.0%.

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

Experience study **-** The annual actuarial valuation report of the System used for these statements is dated September 30, 2016. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

The long-term expected rate of return on pension and other postemployment benefit plan investments **-** The pension rate was 7.5% (7% Pension Plus Plan), and the other postemployment benefit rate was 7.5%, net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Cost of living pension adjustments **-** 3.0% annual non-compounded for MIP members.

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

Additional assumptions for other postemployment benefit only - applies to individuals hired before September 4, 2012**:**

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

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

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

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

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

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

Pension discount rate **-** The discount rate used to measure the total pension liability was 7.5% (7.0% for Pension Plus Plan). This discount rate was based on the long-term rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that plan members contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

Sensitivity of the net pension liability to changes in the discount rate **-** The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for Pension Plus Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

Pension		
1% Decrease (Non-Hybrid/Hybrid) 6.5% / 6.0%	**Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 7.5% / 7.0%**	**1% Increase (Non-Hybrid/Hybrid) 8.5% / 8.0%**
$12,777,129	$9,808,435	$7,308,984

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

Other Postemployment Benefits		
1% Decrease 6.5%	**Current Discount Rate 7.5%**	**1% Increase 8.5%**
$3,928,316	$3,353,840	$2,866,289

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

Other Postemployment Benefits		
1% Decrease 6.5%	**Current Healthcare Cost Trend Rate 7.5%**	**1% Increase 8.5%**
$2,840,251	$3,353,840	$3,936,983

Pension and OPEB Plan Fiduciary Net Position

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

Payable to the pension and OPEB plan - At year-end the School District is current on all required pension and other postemployment benefit plan payments. Amounts accrued at year-end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers, and the contributions due from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL).

Other Information

On December 20, 2017, the Michigan Supreme Court affirmed that Public Act 75 of 2010 is unconstitutional as it substantially impaired the employee's employment contracts by involuntarily reducing the employee's wages by 3%. As a result, the funds collected pursuant to Public Act 75 before the effective date of Public Act 300 of 2012, must be refunded to the employees in accordance with the Michigan Court of Claims judgment on the aforementioned court case. Effective September 30, 2017, the 3% contribution collected under Public Act 75, which amounted to approximately $554 million (including interest), was posted as a liability on the plan's CAFR report.

Note 9 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time, although the School District expects such amounts, if any, to be immaterial.

Note 10 - Tax Abatement Disclosure

Local units of government within the School District have entered into tax abatement agreements, all of which are industrial property tax abatements. Industrial property tax abatements are granted in the State of Michigan under Public Act 198, as amended, to promote economic development, creation of jobs, and new or improvement facilities. The industrial facilities tax (IFT) exemption must be approved by both the local unit (after a public hearing is held) and the State of Michigan. IFT exemptions can cover real and/or personal property. By State law, the exemption must be applied for no later than six months after commencement of the project, and must be accompanied by a written agreement between the taxpayer and the local unit. An exemption allows for taxation on IFT property at 50% of the local property tax millage rate for a period of 1 to 12 years. Accordingly, such agreements meet the criteria of "tax abatements" under GASB Statement No. 77. For the year ended June 30, 2018, the School District's operating and debt property taxes were reduced by $7,105 under this program.

Note 11 - Subsequent Events

Subsequent events were evaluated through October 8, 2018, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would have a significant impact on the financial condition of the School District.

Note 12 - Upcoming Accounting Pronouncements

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

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

Note 13 - New Accounting Standards

For the year ended June 30, 2018, the School District implemented the following new pronouncements: GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*s.

Summary:

GASB Statement No. 75 requires governments that participate in defined benefit other than postemployment benefit (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 service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to

current employees, retirees, and their beneficiaries. The Statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

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

Net position - July 1, 2017 - As previously reported	$ (4,349,510)
Adoption of GASB Statement 75:	
Net other post employment benefit liability	(3,537,558)
Deferred outflows	170,771
Net position - July 1, 2017 - As restated	$ (7,716,297)

REQUIRED SUPPLEMENTARY INFORMATION

Marcellus Community Schools
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Variance Positive (Negative)
	Original	**Final**	**Actual**	**Final to Actual**
Revenues				
Local Sources	$ 1,713,976	$ 1,698,241	$ 1,648,877	$ (49,364)
State Sources	4,791,182	5,255,209	5,267,099	11,890
Federal Sources	166,063	229,699	227,230	(2,469)
Interest and Investment Earnings	--	--	4,688	4,688
Other Revenues	--	--	51,771	51,771
Total Revenues	6,671,221	7,183,149	7,199,665	16,516
Other Financing Sources				
Proceeds from Sale of Capital Assets	--	--	2,800	2,800
Total Revenues and Other Financing Sources	6,671,221	7,183,149	7,202,465	19,316
Expenditures				
Instruction				
Basic Programs	3,216,917	3,395,041	3,391,537	3,504
Added Needs	730,865	792,656	786,521	6,135
Total Instruction	3,947,782	4,187,697	4,178,058	9,639
Supporting Services				
Pupil Support	215,287	231,471	230,818	653
Instructional Staff Support	12,834	11,218	10,528	690
General Administration	199,185	202,534	200,274	2,260
School Administration	566,722	584,632	582,268	2,364
Business Services	181,056	191,213	190,191	1,022
Operations and Maintenance	642,084	658,560	655,324	3,236
Pupil Transportation	257,849	405,348	400,507	4,841
Other Central Support	321,701	334,816	333,592	1,224
Total Supporting Services	2,396,718	2,619,792	2,603,502	16,290
Capital Outlay	199,119	199,119	199,119	--
Debt Service - Principal	--	4,200	4,200	--
Debt Service - Interest	--	52	51	1
Total Expenditures	6,543,619	7,010,860	6,984,930	25,930
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	127,602	172,289	217,535	45,246
Net Change in Fund Balance	**127,602**	**172,289**	**217,535**	**45,246**
Fund Balance at Beginning of Period	1,344,134	1,344,134	1,344,134	--
Fund Balance at End of Period	$ **1,471,736**	$ **1,516,423**	$ **1,561,669**	$ **45,246**

Marcellus Community Schools
Schedule of School District's Proportionate Share of Net Pension Liability
Michigan Public School Employee Retirement Plan
Last Four Fiscal Years (Amounts were determined as of September 30 of each fiscal year)

	2017	2016	2015	2014
School District's Portion of Net Pension Liability (%)	0.03785%	0.03786%	0.03560%	0.03562%
School District's Proportionate Share of Net Pension Liability	$ 9,808,435	$ 9,445,551	$ 8,951,606	$ 7,845,847
School District's Covered Payroll	$ 3,157,887	$ 3,225,254	$ 2,982,638	$ 3,037,513
School District's Proportionate Share of Net Pension Liability as a Percentage of its Covered Payroll	310.60%	292.86%	300.12%	258.30%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	64.21%	63.27%	63.17%	66.20%

Marcellus Community Schools
Schedule of School District's Pension Contributions
Michigan Public School Employee Retirement Plan
Last Four School District Fiscal Years (Amounts determined as of June 30 of each year)

	2018	2017	2016	2015
Statutorily Required Contributions	$ 887,774	$ 850,147	$ 577,808	$ 710,987
Contributions in Relation to Statutorily Required Contributions	887,774	850,147	577,808	710,987
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
School District's Covered Payroll	$ 3,145,552	$ 3,135,365	$ 3,029,366	$ 3,231,954
Contributions as a Percentage of Covered Payroll	28.22%	27.11%	19.07%	22.00%

Marcellus Community Schools
Schedule of School District's Proportionate Share of Net OPEB Liability
Michigan Public School Employee Retirement Plan
Last Fiscal Year (Amounts were determined as of September 30 of each fiscal year)

		2017
School District's Portion of Net OPEB Liability (%)		0.03787%
School District's Proportionate Share of Net OPEB Liability	$	3,353,840
School District's Covered Payroll	$	3,157,887
School District's Proportionate Share of Net OPEB Liability as a Percentage of its Covered Payroll		106.21%
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability		0.00%

Marcellus Community Schools
Schedule of School District's OPEB Contributions
Michigan Public School Employee Retirement Plan
Last Four School District Fiscal Years (Amounts determined as of June 30 of each year)

		2018
Statutorily Required Contributions	$	294,858
Contributions in Relation to Statutorily Required Contributions		294,858
Contribution Deficiency (Excess)	$	-
School District's Covered Payroll	$	3,145,552
Contributions as a Percentage of Covered Payroll		9.37%

Combining and Individual Fund Statements and Schedules

Marcellus Community Schools
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

	Special Revenue	Debt Service	
	Food Service Fund	2007 Refunding Debt Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash and Investments	$ 63,050	$ 136,344	$ 199,394
Due from Other Governmental Units	15,372	285	15,657
Inventory	10,422	--	10,422
Total Assets	$ **88,844**	$ **136,629**	$ **225,473**
LIABILITIES			
Accounts Payable	$ 11,648	$ --	$ 11,648
Accrued Liabilities	394	--	394
Total Liabilities	12,042	--	12,042
FUND BALANCE			
Nonspendable	10,422	--	10,422
Restricted	66,380	136,629	203,009
Unassigned	--	--	--
Total Fund Balance	76,802	136,629	213,431
Total Liabilities and Fund Balance	$ **88,844**	$ **136,629**	$ **225,473**

Marcellus Community Schools
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2018

	Special Revenue	Debt Service	
	Food Service Fund	2007 Refunding Debt Fund	Total Nonmajor Governmental Funds
Revenues			
Local Sources	$ 70,355	$ --	$ 70,355
State Sources	9,696	--	9,696
Federal Sources	274,965	--	274,965
Property Taxes	--	611,352	611,352
Interest and Investment Earnings	40	2,022	2,062
Total Revenues	355,056	613,374	968,430
Expenditures			
Food Services	316,305	--	316,305
Debt Service - Principal	--	620,000	620,000
Debt Service - Interest and Other Expenditures	--	50,610	50,610
Total Expenditures	316,305	670,610	986,915
Excess of Revenues Over (Under) Expenditures	38,751	(57,236)	(18,485)
Net Change in Fund Balance	**38,751**	**(57,236)**	**(18,485)**
Fund Balance at Beginning of Period	38,051	193,865	231,916
Fund Balance at End of Period	$ **76,802**	$ **136,629**	$ **213,431**

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October 8, 2018

To the Board of Education
Marcellus Community Schools
Marcellus, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marcellus Community Schools (the "School District") for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 5, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 to the financial statements. The School District adopted GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as seen in note 1 and note 9 during the fiscal year ended June 30, 2018. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 significantly from those expected.

The most sensitive estimates affecting the School District's financial statements were:

- Estimates have been used to calculate the net pension liability and the net other postemployment benefit liability.

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

The financial statement disclosures 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.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 8, 2018.

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.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, budgetary comparison schedules, and the schedule of proportionate share of net pension liability and contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Education and management of the School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Gabridge & Company

Gabridge & Company, PLC
Grand Rapids, MI

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Education
Marcellus Community Schools
Marcellus, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marcellus Community Schools (the "School District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 8, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Gabridge & Company

Gabridge & Company, PLC
Grand Rapids, MI
October 8, 2018