Marquette Area Public Schools

Year Ended June 30, 2018

Financial Statements and Single Audit Act Compliance

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# MARQUETTE AREA PUBLIC SCHOOLS

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# INDEPENDENT AUDITORS' REPORT

October 17, 2018

Board of Education
Marquette Area Public Schools
Marquette, Michigan

## Report on the Financial Statements

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

*Management's Responsibility for the Financial Statements*

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

*Independent Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 previously present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Implementation of GASB Statement No. 75*

As described in Note 16, the District implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* in the current year. Accordingly, beginning net position of governmental activities was restated. Our opinion is not modified with respect to this matter.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules for the pension and other postemployment benefit plan, as listed in the table of contents, 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 District's basic financial statements. The combining fund financial statements and the schedule of bond indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements and the schedule of bond indebtedness 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 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 17, 2018, on our consideration of the 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Management's Discussion and Analysis

As management of the Marquette Area Public Schools (“the District”), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. Please read it in conjunction with the District’s financial statements, which immediately follow this section.

### Financial Highlights

During the current year, the 2016 capital projects fund completed year two of planned upgrades to the District. Major projects placed in service include the Superior Hills Addition, the Cherry Creek Addition and the Superior Hills Site Improvement. Other bond funded projects placed into service this fiscal year are the Marquette Senior High School ("the MSHS") Athletic Site Improvement (Field Events) and the Bothwell Middle School Bleachers. There are projects in process that will be completed in fiscal 2019 with the expectation that the bond proceeds will be fully expended in year three.

The District completed energy saving projects in all of the elementary buildings for lighting. The sinking fund covered these projects costs and the increased electrical distribution to the MSHS.

The Michigan Public School Employees' Retirement System ("MPSERS") section 147c started in fiscal 2013 which is meant to stabilize the unfunded actuarial accrued liability ("UAAL") rate to 20.96%. The State will calculate each district’s share of the Section 147c funds (based on prior year salaries), send the district its portion through state aid and the Office of Retirement Services ("ORS") will bill the District for the exact same amount as the District’s share of state revenue. For fiscal 2018, the rate was 11.32%.

There were 13 retirements in fiscal 2018. This was lower than fiscal 2017 (16) and remains higher than the average of five. Terminal leave payments were lower in fiscal 2018 by $33,100.

All bargaining groups are in settled contracts through June 30, 2019.

Health insurance rates increased by 10% and the District's hard cap portion increased by 3.4%.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements, which comprise three components: 1) District-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

The basic financial statements include two types of statements that present different views of the District:

The first two statements are the District-wide financial statements that provide both short-term and long-term information about the District’s overall financial status. These statements present an aggregate view of the District’s finances and a longer-term view of those finances.

The next statements are fund financial statements that focus on individual funds of the District. These statements look at the District’s operations in more detail than the District-wide financial statements by providing information about the District’s General Fund, the only major fund, with all other funds aggregated and presented in one column as nonmajor funds.

**District-Wide Financial Statements.** The D*istrict-wide financial statements* are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private sector business.

## Management's Discussion and Analysis

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

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

Both of the District-wide financial statements distinguish functions of the District that are principally supported by taxes and state aid *(governmental activities)*. The governmental activities of the District include instruction, supporting services, food services, community services and athletics.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

Information for each of the District's individual governmental funds is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balance for the general fund, which is considered to be the District's only major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement for the general fund has been provided herein to demonstrate compliance with this budget.

**Proprietary Fund - Internal Service Fund**. The internal service fund accounts for payment of retirement incentive and unused sick leave reimbursement plan payments for retirees and is reimbursed by other funds for these payments. This fund's activity is reported using the accrual method of accounting and is included in the government-wide financial statements.

**Fiduciary Funds.** *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the District-wide financial statements because the resources of those funds are not available to support the District's own programs. The District is responsible for ensuring that the assets in these funds are used for their intended purposes.

**Notes to the Financial Statements.** The *notes* provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information includes this management's discussion and analysis and the schedules of the District's pension and other postemployment benefits plans.

The *combining statements* referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

### District-wide Financial Analysis

The District's net position increased approximately $2.7 million or 13.7% before considering the restatement of beginning net position, a decrease of $16.9 million to reflect the implementation of GASB 75 requiring recognition of the District's other postemployment benefits. The table below provides a summary of the District's net position as of June 30:

| | Net Position | | |
|---|---|---|---|
| | Governmental Activities | | Percent |
| | 2018 | 2017 | Change |
| **Assets** | | | |
| Current and other assets | $ 14,459,339 | $ 17,157,641 | 15.7% |
| Capital assets, net | 20,816,553 | 16,308,695 | -27.6% |
| **Total assets** | 35,275,892 | 33,466,336 | -5.4% |
| **Deferred outflows of resources** | 14,805,378 | 8,963,928 | -65.2% |
| **Liabilities** | | | |
| Current liabilities | 5,092,748 | 4,558,596 | -11.7% |
| Long-term debt | 7,579,322 | 8,113,013 | 6.6% |
| Other liabilities | 68,000,653 | 47,765,807 | -42.4% |
| **Total liabilities** | 80,672,723 | 60,437,416 | -33.5% |
| **Deferred inflows of resources** | 3,357,091 | 1,748,130 | -92.0% |
| **Net position** | | | |
| Net investment in capital assets | 13,899,597 | 12,403,936 | -12.1% |
| Restricted | 1,392,841 | 1,215,947 | -14.5% |
| Unrestricted (deficit) | (49,240,982) | (33,375,165) | -47.5% |
| **Total net position** | $ (33,948,544) | $ (19,755,282) | -71.8% |

The largest component of the District’s net position reflects its net investment in capital assets (e.g. land, construction-in-progress, land improvements, buildings and improvements, furniture and equipment and vehicles and buses), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, is should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted net position of approximately $1.4 million is shown separately to recognize legal constraints from debt covenants and enabling legislation. These constraints limit the District’s ability to use the restricted net position for day-to-day operations.

The remaining amount of net position, a deficit of approximately $49.2 million represents the accumulated results of the current and all past years’ operations. This deficit includes the impact of the Governmental Accounting Standards Board requirement to report the District's proportionate share of the net pension liability and net other postemployment benefit liability on its statement of net position. The operating results of the general fund will also have a significant impact on the change in unrestricted net position from year to year.

## Management's Discussion and Analysis

The following condensed financial information was derived from the District-wide statement of activities and reflects how the District's net position changed during the fiscal year ended June 30:

| | Net Position | | |
|---|---|---|---|
| | Governmental Activities | | Percent |
| | 2018 | 2017 | Change |
| **Program revenues** | | | |
| Charges for services | $ 810,364 | $ 785,020 | -3.2% |
| Operating grants | 9,173,374 | 8,311,470 | -10.4% |
| Capital grants | 15,000 | - | 100.0% |
| **General revenues** | | | |
| Taxes | 10,567,377 | 11,130,070 | 5.1% |
| Unrestricted state aid | 15,044,794 | 13,611,992 | -10.5% |
| Other | 217,895 | 398,883 | 45.4% |
| **Total revenues** | 35,828,804 | 34,237,435 | -4.6% |
| **Expenses** | | | |
| Instruction | 19,331,568 | 17,255,977 | -12.0% |
| Supporting services | 11,289,105 | 14,458,971 | 21.9% |
| Food services | 928,387 | 1,006,533 | 7.8% |
| Community services | 194,451 | 227,246 | 14.4% |
| Athletics | 490,560 | 487,426 | -0.6% |
| Interest and payments to other public schools | 155,075 | 222,439 | 30.3% |
| Unallocated depreciation | 735,214 | 824,921 | 10.9% |
| **Total expenses** | 33,124,360 | 34,483,513 | 3.9% |
| **Change in net position** | 2,704,444 | (246,078) | 1199.0% |
| Net position: | | | |
| Beginning of year | (19,755,282) | (19,509,204) | -1.3% |
| Restatement for implementation of GASB 75 | (16,897,706) | - | -100.0% |
| **End of year** | $ (33,948,544) | $ (19,755,282) | -71.8% |

**Financial Analysis of the District as a Whole**

Of the District's total revenues available to operate the District, 2% or approximately $800,000 was generated from fees charged to those who benefited from the programs. Operating grants, 26% or approximately $9.2 million, was earned from other governments or organizations that subsidize certain programs with grants and other directed types of funding.

Local property taxes, in the amount of approximately $10.6 million, represented 29% of the revenues of the governmental activities. The unrestricted state aid accounted for approximately $15 million or 42% of the revenue available. This revenue is determined by a formula that incorporates pupil head count, the annual per pupil allowance and the non-homestead property taxable value of the District.

Being in the business of educating children, the largest expenses incurred was instruction, which accounted for $19.3 million or 58% of total expenses. Supporting services amounted to $11.3 million or 34% of total expenses, which includes such items as administration, transportation, technology, maintenance and a variety of similar services that support the District's mission of educating children.

The District was required to implement Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). The District's primary exposure to other postemployment benefits (OPEB) is through the State's MPSERS retirement system and the health care benefits it offers to MPSERS retirees. While the State oversees, administers, and promulgates the rules governing this system, districts that participate in the system are required to report any liability due to underfunding as a liability of the District. The liability is allocated to each district on a pro-rata basis and the liability amount is revised annually as the many factors impacting the calculation are updated. This is the first year the OPEB liability of approximately $17.3 million is reported in the District's financial statements. GASB 75 also requires the District to report the effect on the prior year's financial statements, had this statement been implemented at that time. This prior year impact is reflected in the Change in Net Position chart above as the "Restatement for implementation of GASB 75". The reporting of this OPEB liability reduced the District's beginning net position by approximately $16.9 million.

### Financial Analysis of the District's Funds

The District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District's overall financial health.

As the District completed this year, the governmental funds reported a combined fund balance of $9.3 million, which is a decrease of $3.2 million from last year. The primary reasons for the decrease are as follows:

### Major Fund

The general fund, the primary operating fund, experienced an increase of approximately $700,000. Revenues exceeded expenditures due to an increase in student enrollment and additional funding sources. In comparison to the prior year, the decrease in expenditures is reflected in cost savings realized with mid-year retirements or resignations. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance and total fund balance represent 8% and 22%, respectively, of total general fund expenditures.

### Nonmajor Governmental Funds

The District's capital project funds account for expenditures related to capital outlay improvements. The capital projects fund, sinking fund and 2016 capital projects fund decreased by $3.8 million. This decrease is from capital outlay expenditures related to Superior Hills and Cherry Creek class room additions, the MSHS auxiliary gymnasium and Shiras Planetarium which were completed and placed in service in the current fiscal year.

The debt service fund remained stable from the prior year, showing a decrease in fund balance of approximately $70,000. Millage rates are determined annually to ensure that the District accumulates sufficient resources to pay annual bond issue-related debt service. Debt service fund balances are reserved since they can only be used to pay debt service obligations due in November and May annually until completed.

### General Fund Budgetary Highlights

Generally, as additional information became known during the fiscal year, budget amendments were made as deemed necessary. A statement showing the District's original and final budget amounts, compared with actual amounts is provided in the basic financial statements.

In comparison to the amended budget and actual results, there were no significant variances.

Substantial changes to the original and amended budget were as follows:

Budgeted revenue increased approximately $1.6 million from the original budgeted amount of $31.3 million to the final amended budget of $32.9 million. These increases were due to an increase in student enrollment over projections, additional state revenue sources for testing, high school per pupil amounts and increased retirement reimbursement.

Budgeted expenses and transfers increased approximately $800,000 from the original budgeted amount of $31.9 million to the final amended budget of $32.7 million. Significant changes from the original budget to the final amended budget are as follows:

Current instruction, pupil services and staff/personnel services costs were amended by approximately $700,000 (net increase) attributable to an increase in unexpected retirement costs and employee wages. Decreases were attributable to retirement and resignation cost savings.

Pupil transportation costs increased by approximately $60,000 for general repairs and maintenance of the District's buses.

Operations and maintenance were amended by approximately $200,000 to reflect an increase in electrical distribution and construction costs to the MSHS.

**Capital Assets and Debt Administration**

**Capital Assets.** At June 30, 2018, the District had invested $20.8 million, net of accumulated depreciation, in a broad range of capital assets (see the table below). Additional information regarding the District's capital assets can be found in the notes to the financial statements.

| | Capital Assets (Net of Depreciation) | |
|---|---|---|
| | 2018 | 2017 |
| Land | $ 822,392 | $ 822,392 |
| Construction in progress | 4,372,215 | 2,530,196 |
| Land improvements | 1,716,109 | 842,875 |
| Buildings and improvements | 12,548,871 | 10,493,994 |
| Furniture and equipment | 1,145,527 | 1,330,331 |
| Vehicles and buses | 211,439 | 288,907 |
| **Total capital assets, net** | $ 20,816,553 | $ 16,308,695 |

This year's additions of approximately $5.4 million included the additions of classroom space at Superior Hills and Cherry Creek Elementary Buildings, parking and bus loop, boiler and lighting upgrades, improvements to the athletic field events areas, roofing and bleacher projects and various furnishings. Construction in progress at year-end consist of ongoing improvements to the auxiliary gym, parking loop and MSHS roofing/boiler projects that will be placed in service in the 2019 fiscal year.

**Debt Administration.** At the end of this year, the School District had $7.6 million in bonds outstanding and other obligations versus $8.1 million in the previous year, a decrease of approximately $500,000 or 6.6%. The net decrease is due to scheduled annual principal payments made throughout the year.

| | Long-Term Debt | |
|---|---|---|
| | June 30, 2018 | June 30, 2017 |
| Bonds | $ 6,785,000 | $ 7,300,000 |
| Bonds issuance premiums | 148,848 | 168,306 |
| Retiree compensated absences and terminal leave | 136,130 | 183,458 |
| Employee compensated absences and terminal leave | 509,344 | 461,249 |
| **Total long-term debt** | $ 7,579,322 | $ 8,113,013 |

Additional information on the District's long-term debt can be found in the notes to the financial statements.

**Economic Factors and Next Year's Budgets and Rates**

Our elected officials and administration consider many key factors when setting the District's fiscal 2019 budget. One of the most important factors affecting the budget is pupil enrollment count. Each December, the District obtains enrollment projections to build the following year's budget assumptions. This number becomes the base for the state revenue calculation. The state foundation revenue is determined by multiplying the blended student count by the state foundation allowance per pupil. This amount is then reduced by the local tax effort based upon 18.0000 operating mills levied on non-homestead properties. This local portion is approximately 26.6% of the revenue budget with the state foundation contributing 63.2%. As the District cannot assess additional tax revenue for general obligations per state law, the amount of state foundation allowance which provides over half of the District's revenue is significant to the budget. The enrollment projection data for fiscal 2019 anticipates 3,217 students as the assumption for the fiscal 2019 budget. Early headcounts reflect higher than budgeted enrollments which, upon validation through audit, will require an amendment if different from original appropriations. State aid foundation for fiscal 2019 will increase by $240 per pupil (from $7,631 to $7,871). State economic factors and legislation continue to be of concern for state funding to K-12 districts.

Several major capital projects are planned for the 2019 fiscal year. Sinking fund (SF) projects are expected to be approximately $1.1 million and 2016 capital projects fund (CP) projects are expected to be approximately $200,000. The majority of these projects are the following:

- Drinking water plumbing and filtration – District Wide (CP)
- Bothwell parking/bus loop (SF)
- MSHS boiler and roofing upgrade (SF)
- MSHS auxiliary gymnasium (SF)

**Contacting the District's Management**

This financial report is intended to provide our taxpayers, parents and investors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Business Office, 1201 West Fair Avenue, Marquette, Michigan 49855.

# BASIC FINANCIAL STATEMENTS

## MARQUETTE AREA PUBLIC SCHOOLS

### Statement of Net Position

June 30, 2018

| | |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 786,348 |
| Investments | 7,273,447 |
| Restricted investments | 1,681,606 |
| Receivables, net | 4,622,869 |
| Other assets | 95,069 |
| Capital assets not being depreciated | 5,194,607 |
| Capital assets being depreciated, net | 15,621,946 |
| **Total assets** | 35,275,892 |
| **Deferred outflows of resources** | |
| Deferred charge on bond refunding | 16,892 |
| Deferred pension amounts | 13,730,296 |
| Deferred other postemployment benefit amounts | 1,058,190 |
| **Total deferred outflows of resources** | 14,805,378 |
| **Liabilities** | |
| Accounts payable and accrued liabilities | 5,042,599 |
| Unearned revenue | 50,149 |
| Long-term debt: | |
| Due within one year | 593,412 |
| Due in more than one year | 6,985,910 |
| Net pension liability | 50,657,663 |
| Net other postemployment benefit liability | 17,342,990 |
| **Total liabilities** | 80,672,723 |
| **Deferred inflows of resources** | |
| Deferred pension amounts | 2,770,771 |
| Deferred other postemployment benefit amounts | 586,320 |
| **Total deferred inflows of resources** | 3,357,091 |
| **Net position** | |
| Net investment in capital assets | 13,899,597 |
| Restricted for: | |
| Food service | 312,322 |
| Debt service | 124,019 |
| Capital projects | 956,500 |
| Unrestricted (deficit) | (49,240,982) |
| **Total net position** | $ (33,948,544) |

The accompanying notes are an integral part of these basic financial statements.

## MARQUETTE AREA PUBLIC SCHOOLS

### Statement of Activities

For the Year Ended June 30, 2018

| Functions / Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenues |
|---|---|---|---|---|---|
| **Governmental activities:** | | | | | |
| Instruction | $ 19,331,568 | $ - | $ 7,834,948 | $ - | $ (11,496,620) |
| Supporting services | 11,289,105 | 199,270 | 738,598 | 15,000 | (10,336,237) |
| Food services | 928,387 | 438,059 | 551,528 | - | 61,200 |
| Community services | 194,451 | - | 48,300 | - | (146,151) |
| Athletics | 490,560 | 173,035 | - | - | (317,525) |
| Payments to other public schools | 11,871 | - | - | - | (11,871) |
| Interest | 143,204 | - | - | - | (143,204) |
| Unallocated depreciation | 735,214 | - | - | - | (735,214) |
| **Total governmental activities** | $ 33,124,360 | $ 810,364 | $ 9,173,374 | $ 15,000 | (23,125,622) |
| **General revenues** | | | | | |
| Property taxes levied for: | | | | | |
| Operations | | | | | 8,834,858 |
| Debt service | | | | | 608,557 |
| Capital projects | | | | | 1,123,962 |
| State aid not restricted to specific purposes | | | | | 15,044,794 |
| Interest and investment earnings | | | | | 141,109 |
| Other | | | | | 76,786 |
| **Total general revenues** | | | | | 25,830,066 |
| **Change in net position** | | | | | 2,704,444 |
| Net position, beginning of year, as restated | | | | | (36,652,988) |
| **Net position, end of year** | | | | | $ (33,948,544) |

The accompanying notes are an integral part of these basic financial statements.

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# FUND FINANCIAL STATEMENTS

## MARQUETTE AREA PUBLIC SCHOOLS

### Balance Sheet
Governmental Funds
June 30, 2018

| | General Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | $ 403,836 | $ 382,512 | $ 786,348 |
| Investments | 6,395,210 | 725,852 | 7,121,062 |
| Restricted investments | - | 1,681,606 | 1,681,606 |
| Receivables | 4,597,804 | 25,065 | 4,622,869 |
| Due from other funds | 317,397 | 28,742 | 346,139 |
| Inventories | - | 16,317 | 16,317 |
| Prepaids | 78,752 | - | 78,752 |
| **Total assets** | $ 11,792,999 | $ 2,860,094 | $ 14,653,093 |
| **Liabilities** | | | |
| Accounts payable | $ 632,067 | $ 590,407 | $ 1,222,474 |
| Salaries payable and related accrued liabilities | 3,783,511 | 12,281 | 3,795,792 |
| Due to other funds | 235,583 | 94,380 | 329,963 |
| Unearned revenue | 50,149 | - | 50,149 |
| **Total liabilities** | 4,701,310 | 697,068 | 5,398,378 |
| **Fund balances** | | | |
| Nonspendable | 78,752 | 16,317 | 95,069 |
| Restricted | - | 1,400,857 | 1,400,857 |
| Committed | 3,273,077 | - | 3,273,077 |
| Assigned | 1,125,961 | 745,852 | 1,871,813 |
| Unassigned | 2,613,899 | - | 2,613,899 |
| **Total fund balances** | 7,091,689 | 2,163,026 | 9,254,715 |
| **Total liabilities and fund balances** | $ 11,792,999 | $ 2,860,094 | $ 14,653,093 |

The accompanying notes are an integral part of these basic financial statements.

## Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2018

| | |
|---|---|
| **Fund balances - total governmental funds** | $ 9,254,715 |
| Amounts reported for *governmental activities* in the statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | |
| Capital assets not being depreciated | 5,194,607 |
| Capital assets being depreciated, net | 15,621,946 |
| Certain liabilities, such as bonds payable and related deferred outflows, are not due and payable in the current period and therefore are not reported in the funds. | |
| Bonds payable | (6,785,000) |
| Issuance premiums | (148,848) |
| Employee compensated absences | (509,344) |
| Unamortized deferred charge on bond refunding | 16,892 |
| Accrued interest on bonds payable | (24,333) |
| Certain pension and other postemployment benefit-related amounts, such as the net pension liability, net OPEB liability and related deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds. | |
| Net pension liability | (50,657,663) |
| Deferred outflows of resources related to the net pension liability | 13,730,296 |
| Deferred inflows of resources related to the net pension liability | (2,770,771) |
| Net other postemployment benefits obligation | (17,342,990) |
| Deferred outflows related to the net other postemployment liability | 1,058,190 |
| Deferred inflows related to the net other postemployment liability | (586,320) |
| Internal service funds are used by management to account for current employees eligible for termination payments. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. | 79 |
| **Net position of governmental activities** | $ (33,948,544) |

The accompanying notes are an integral part of these basic financial statements.

## MARQUETTE AREA PUBLIC SCHOOLS

### Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2018

| | General Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| **Revenues** | | | |
| Local sources | $ 9,373,061 | $ 2,246,376 | $ 11,619,437 |
| State sources | 20,861,059 | 77,339 | 20,938,398 |
| Federal sources | 566,964 | 475,900 | 1,042,864 |
| Interdistrict sources | 2,166,784 | 6,025 | 2,172,809 |
| **Total revenues** | 32,967,868 | 2,805,640 | 35,773,508 |
| **Expenditures** | | | |
| Current: | | | |
| Instruction | 19,878,488 | - | 19,878,488 |
| Supporting services | 12,071,247 | 573 | 12,071,820 |
| Food services | - | 941,701 | 941,701 |
| Community services | 198,731 | - | 198,731 |
| Debt service: | | | |
| Principal | - | 515,000 | 515,000 |
| Interest | - | 154,216 | 154,216 |
| Capital outlay | 12,047 | 5,149,534 | 5,161,581 |
| Other financing transactions | 11,945 | 6,658 | 18,603 |
| **Total expenditures** | 32,172,458 | 6,767,682 | 38,940,140 |
| Revenues over (under) expenditures | 795,410 | (3,962,042) | (3,166,632) |
| **Other financing sources (uses)** | | | |
| Transfers in | 44,479 | 170,996 | 215,475 |
| Transfers out | (170,996) | (43,737) | (214,733) |
| **Total other financing sources (uses)** | (126,517) | 127,259 | 742 |
| **Net change in fund balances** | 668,893 | (3,834,783) | (3,165,890) |
| Fund balances, beginning of year | 6,422,796 | 5,997,809 | 12,420,605 |
| **Fund balances, end of year** | $ 7,091,689 | $ 2,163,026 | $ 9,254,715 |

The accompanying notes are an integral part of these basic financial statements.

## MARQUETTE AREA PUBLIC SCHOOLS

### Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2018

| | |
|---|---|
| **Net changes in fund balances - total governmental funds** | $ (3,165,890) |
| Amounts reported for *governmental activities* in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. | |
| Capital assets purchased/constructed | 5,385,777 |
| Depreciation expense | (877,919) |
| Internal service funds are used by management to account for current employees eligible for termination payments. The change in the net position of the internal service funds is reported with governmental activities. | 2,664 |
| Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | |
| Principal payments on long-term liabilities | 515,000 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. | |
| Change in the net other postemployment benefit liability and related deferred amounts | 26,586 |
| Change in net pension liability and related deferred amounts | 855,309 |
| Change in the accrual for compensated absences | (48,095) |
| Amortization of issuance premiums and deferred refunding losses | 11,012 |
| **Change in net position of governmental activities** | $ 2,704,444 |

The accompanying notes are an integral part of these basic financial statements.

## MARQUETTE AREA PUBLIC SCHOOLS

### Statement of Revenues, Expenditures and Change in Fund Balance

Budget and Actual - General Fund
For the Year Ended June 30, 2018

| | Original Budget | Final Budget | Actual | Actual Over (Under) Final Budget |
|---|---|---|---|---|
| **Revenues** | | | | |
| Local sources | $ 9,871,887 | $ 9,353,158 | $ 9,373,061 | $ 19,903 |
| State sources | 18,779,483 | 20,835,902 | 20,861,059 | 25,157 |
| Federal sources | 558,197 | 580,438 | 566,964 | (13,474) |
| Interdistrict sources | 2,147,930 | 2,165,714 | 2,166,784 | 1,070 |
| **Total revenues** | 31,357,497 | 32,935,212 | 32,967,868 | 32,656 |
| **Expenditures** | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Basic programs | 14,010,398 | 14,631,143 | 14,537,355 | (93,788) |
| Added needs | 5,550,380 | 5,453,638 | 5,341,133 | (112,505) |
| Total instruction | 19,560,778 | 20,084,781 | 19,878,488 | (206,293) |
| Supporting services: | | | | |
| Pupil services | 2,649,489 | 2,737,095 | 2,694,207 | (42,888) |
| Instructional staff services | 624,166 | 614,879 | 613,287 | (1,592) |
| General administration | 458,027 | 432,260 | 421,621 | (10,639) |
| School administration | 1,985,366 | 2,003,252 | 1,990,073 | (13,179) |
| Business services | 435,886 | 445,790 | 442,230 | (3,560) |
| Operations and maintenance | 3,156,326 | 3,333,108 | 3,307,967 | (25,141) |
| Pupil transportation services | 1,205,323 | 1,266,850 | 1,224,159 | (42,691) |
| Staff/personnel services | 893,084 | 790,233 | 789,695 | (538) |
| Support services - other | 572,649 | 609,764 | 588,008 | (21,756) |
| Total supporting services | 11,980,316 | 12,233,231 | 12,071,247 | (161,984) |
| Community services: | | | | |
| Community activities | 169,821 | 214,610 | 198,731 | (15,879) |
| Capital outlay | 45,413 | 12,049 | 12,047 | (2) |
| Other financing transactions | 5,000 | 15,100 | 11,945 | (3,155) |
| **Total expenditures** | 31,761,328 | 32,559,771 | 32,172,458 | (387,313) |
| Revenues over (under) expenditures | (403,831) | 375,441 | 795,410 | 419,969 |
| **Other financing sources (uses)** | | | | |
| Transfers in | 10,000 | 12,740 | 44,479 | 31,739 |
| Transfers out | (171,000) | (170,996) | (170,996) | - |
| **Total other financing sources (uses)** | (161,000) | (158,256) | (126,517) | 31,739 |
| **Net change in fund balance** | (564,831) | 217,185 | 668,893 | 451,708 |
| Fund balance, beginning of year | 6,422,796 | 6,422,796 | 6,422,796 | - |
| **Fund balance, end of year** | $ 5,857,965 | $ 6,639,981 | $ 7,091,689 | $ 451,708 |

The accompanying notes are an integral part of these basic financial statements.

## Statement of Net Position
Proprietary Fund
June 30, 2018

| | Governmental Activities Internal Service Funds |
|---|---|
| **Assets** | |
| Current assets: | |
| Investments | $ 152,385 |
| **Liabilities** | |
| Current liabilities: | |
| Due to other funds | 16,176 |
| Compensated absences, current portion | 83,954 |
| Total current liabilities | 100,130 |
| Noncurrent liabilities: | |
| Compensated absences, noncurrent portion | 52,176 |
| **Total liabilities** | 152,306 |
| **Total net position** | $ 79 |

The accompanying notes are an integral part of these basic financial statements.

## MARQUETTE AREA PUBLIC SCHOOLS

### Statement of Revenues, Expenses and Change in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2018

| | Governmental Activities |
|---|---|
| | **Internal Service Funds** |
| **Operating revenues** | |
| Reimbursement for payments | $ 55,296 |
| **Operating expenses** | |
| Compensated absences | 48,203 |
| Payroll taxes | 3,687 |
| **Total operating expenses** | 51,890 |
| Operating income before transfer | 3,406 |
| Operating transfers out | 742 |
| **Change in net position** | 2,664 |
| Net position (deficit), beginning of year | (2,585) |
| **Net position, end of year** | $ 79 |

The accompanying notes are an integral part of these basic financial statements.

## MARQUETTE AREA PUBLIC SCHOOLS

### Statement of Cash Flows

Proprietary Fund
For the Year Ended June 30, 2018

| | Governmental Activities |
|---|---|
| | Internal Service Funds |
| **Cash flows from operating activities** | |
| Cash received from interfund services and reimbursements | $ 57,829 |
| Cash payments for employee benefits | (185,471) |
| **Net cash used in operating activities** | (127,642) |
| **Cash flow provided by investing activities** | |
| Proceeds from sale of investment securities | 128,384 |
| **Cash flows from noncapital financing activities** | |
| Transfers out | (742) |
| **Net change in cash and cash equivalents** | - |
| Cash and cash equivalents, beginning of year | - |
| **Cash and cash equivalents, end of year** | $ - |
| **Reconciliation of operating income to net cash used in operating activities** | |
| Operating income | $ 3,406 |
| Change in operating assets and liabilities that provided used cash: | |
| Due to other funds | (83,720) |
| Compensated absences | (47,328) |
| **Net cash used in operating activities** | $ (127,642) |

The accompanying notes are an integral part of these basic financial statements.

## MARQUETTE AREA PUBLIC SCHOOLS

### Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

| | Private Purpose Trust Fund Scholarship Fund | Student Activity Agency Fund |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 151,122 | $ 558,278 |
| Investments | 192,075 | - |
| Accounts receivable | 1,616 | 1,664 |
| **Total assets** | 344,813 | $ 559,942 |
| **Liabilities** | | |
| Accounts payable | 53 | $ 13,744 |
| Due to student activities | 26,393 | 546,198 |
| **Total liabilities** | 26,446 | $ 559,942 |
| **Net position restricted for** | | |
| Scholarships | $ 318,367 | |

The accompanying notes are an integral part of these basic financial statements.

## MARQUETTE AREA PUBLIC SCHOOLS

### Statement of Change in Fiduciary Net Position
For the Year Ended June 30, 2018

| | Private Purpose Trust Fund Scholarship Fund |
|---|---|
| **Additions** | |
| Private donations | $ 90,986 |
| Interest | 979 |
| **Total additions** | 91,965 |
| **Deductions** | |
| Scholarships awarded | 120,525 |
| **Change in net position** | (28,560) |
| Net position, beginning of year | 346,927 |
| **Net position, end of year** | $ 318,367 |

The accompanying notes are an integral part of these basic financial statements.

# NOTES TO FINANCIAL STATEMENTS

# Notes to Financial Statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**Reporting Entity**

The District is governed by an elected seven-member Board of Education. The District has followed the guidelines of GASB and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

*District-wide and Fund Financial Statements*

The District-wide financial statements (i.e., the *statement of net position* and the *statement of activities*) report information on all of the non-fiduciary activities of the District. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year.

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. Taxes and other items not properly included among program revenues are reported instead as *general revenues.*

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting,* as are the proprietary fund and fiduciary fund financial statements. 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 provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days of the end of the current fiscal period, except taxes which must be collected within 60 days, and reimbursement type grants which must be collected within one year. 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.

Property taxes, state school aid, expenditure-driven grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those accounted for and reported in another fund.

Additionally, the District reports the following fund types:

The s*pecial revenue fund* is used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. Any operating deficit generated by these activities is the responsibility of the general fund.

The c*apital projects funds* are used to account for and report financial resources that are restricted for capital outlays related to the District's construction or improvements of school buildings and facilities.

The d*ebt service funds* are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

The i*nternal service fund* accounts for payment of early retirement incentive and unused sick leave reimbursement plan payments for retirees and is reimbursed by other funds for these payments.

The a*gency fund* accounts for assets held for other groups and organizations and is custodial in nature.

The p*rivate-purpose trust fund* is used to administer a scholarship program. The funds are segregated and held in trust for the future recipients of the scholarship.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The only proprietary fund maintained is an internal service fund that is used to pay early retirement incentives and unused sick leave reimbursement plan payments to retirees. The principal revenue of the proprietary funds relates to transfers from other funds to pay these expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The effect of interfund activity has been eliminated from the District-wide financial statements.

**Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity**

*Deposits*

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

*Investments*

Investments are reported at fair value, with the exception of the District's investments in the Michigan Liquid Assets Fund ("MILAF"), which are recorded at amortized cost.

*Restricted Investments*

The unspent bond proceeds and related interest of the capital projects funds require amounts to be set aside for construction. In addition, the unspent property taxes levied in the debt service funds and sinking fund are required to be set aside for future bond principal and interest and approved sinking fund projects, respectively.

*Receivables and Payables*

The District follows the practice of recording revenues that have been earned but not yet received as receivables at year end. Receivables consist primarily of state school aid payments from the State of Michigan and federal grant funds earned but not yet collected. No amounts have been identified as potentially uncollectible by management, and therefore, no amount has been recorded as a provision for uncollectible accounts.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). There were no interfund advance loans outstanding at June 30, 2018.

*Other Assets*

*Inventories*

Inventories are valued at cost using the first-in, first-out method. Inventories consist of primarily of food, cafeteria supplies and teaching supplies held for sale or consumption. USDA donated commodities in the food service fund are recorded at fair value. The cost is recorded as an expenditure when consumed or sold rather than when purchased. Reported inventories are equally offset by nonspendable fund balance, which indicates that they do not constitute "available spendable resources" even though they are a component of current assets.

*Prepaids*

Payments made to vendors for services that will benefit future periods are reported as prepaid items. Prepaid items are equally offset by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of current assets.

*Capital Assets*

Capital assets, which include land, construction-in-progress, land improvements, buildings and improvements, furniture and equipment and vehicles and buses, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are recorded at estimated acquisition cost at the date of donation.

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

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

| Assets | Years |
|---|---|
| Land improvements | 15 - 20 |
| Buildings and improvements | 5 - 50 |
| Furniture and equipment | 5 - 45 |
| Vehicles and buses | 5 - 10 |

*Deferred Outflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows of resources related to the net pension liability and the net other postemployment benefit liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date. A deferred refunding charge results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

*Salaries Payable and Related Accrued Liabilities*

A liability is recorded at June 30, 2018 for those amounts owed to teachers and other employees of the District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for employee health insurances for the months of July and August. The District pays these insurances for this period as a part of the compensation for services rendered in the preceding school year.

*Compensated Absences (Vacation and Sick Leave) and Early Termination Benefits*

The liability for compensated absences reported in the District-wide statements consists of earned by unused accumulated vacation and sick leave benefits. The amount due to active employees is reported only in the District-wide statements. The liability for unused accumulated vacation and sick leave benefits has been calculated using the vesting method, in which leave amounts for employees who are expected to become eligible in the future to receive such payments upon normal retirement are recorded based on the probability that the School District will compensate the employees upon retirement. Amounts due to employees who are currently eligible to receive termination payments (retired employees) are reported as a liability in the Internal Service Fund. This liability includes the known liability for accumulated vacation and sick leave benefits, in addition to early retirement incentives. The early termination benefits consist of early retirement incentive cash payments provided to eligible employees each year until they reach the age of 62.

*Long-Term Obligations*

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

*Bonded Construction Costs and Sinking Funds*

The Sinking Fund records capital project activities funded with a Sinking Fund millage. For this fund, authorized prior to March 16, 2017, the School District has compiled with the applicable provisions of Section 1212 of the Revised School Code. Total construction expenditures related to this fund total was approximately $1,337,000 in fiscal 2018.

The 2016 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. This includes the 2016 School Building and Site Bonds. For these capital projects, the School District has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code. The School District has reported the annual construction activity of the 2016 School Building and Site Bonds. Total construction expenditures related to this bond total approximately 3,448,000 in fiscal 2018.

*Deferred Inflows of Resources*

In addition to liabilities, the statement of financial 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 one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District's deferred inflows of resources are related to pension and net other postemployment benefit costs.

*Fund Balances*

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. *Committed fund balance* is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision-making authority, the Board. A formal resolution of the Board is required to establish, modify, or rescind a fund balance commitment. The District reports *assigned fund balance* for amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board, pursuant to policy, has delegated the authority to assign fund balance to the Assistant Superintendent. Unassigned fund balance is the residual classification for the general fund.

When the District incurs an expenditure for purposes for which various fund balance classifications can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

The Board of Education has adopted a fund balance policy. The fund balance policy prescribes the minimum fund balance as $3,000,000 and designates it as committed. The Board of Education is aware that significant funding challenges have been addressed in the past fiscal years and that more severe fiscal challenges are looming, and as a result, has determined that a minimum fund balance of $3,000,000 is prudent to meet cash flow needs and maintain the foundational support of the School District through more difficult economic times, as anticipated.

*Interfund Transactions*

During the course of normal operations, the District has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the District.

*Pensions and Other Postemployment Benefits*

For purposes of measuring the net pension and other postemployment benefit liabilities, deferred outflows of resources and deferred inflows of resources related to pension and other postemployment benefit, and pension and other postemployment benefit expense, information about the fiduciary net position of the Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

## 2. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue fund. All annual appropriations lapse at fiscal year-end.

The general fund is under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles ("GAAP"), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budget for the general fund is adopted on a functional basis.

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2018, the District did not incur expenditures in excess of the amount appropriated.

## 3. DEPOSITS AND INVESTMENTS

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

| | Totals |
|---|---|
| **Statement of Net Position** | |
| Cash and cash equivalents | $ 786,348 |
| Investments | 7,273,447 |
| Restricted investments | 1,681,606 |
| **Statement of Fiduciary Net Position** | |
| Cash and cash equivalents | 709,400 |
| Investments | 192,075 |
| **Total** | $ 10,642,876 |
| **Deposits and investments** | |
| Bank deposits: | |
| Checking / savings accounts | $ 1,495,977 |
| Certificates of deposit: | |
| Maturing in less than one year | 94,835 |
| Maturing in more than one year | 96,610 |
| Investments | 8,955,054 |
| Cash on hand | 400 |
| **Total** | $ 10,642,876 |

Michigan law authorizes the District to deposit and invest in:

Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than five years after the purchase dates.

Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.

Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

There are no limitations or restrictions on participant withdrawals for the investment pools that are recorded at amortized cost, except for a one-day minimum investment period on MILAF cash management funds and a 14-day redemption limitation on MILAF MAX Class Funds.

**Deposit and Investment Risk**

*Interest Rate Risk.* Interest rate risk is the risk that the value of investments will decrease as a result of a ruse in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The School District's policy minimizes interest rate risk by requiring the structuring of the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require a policy for deposit custodial credit risk. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level be used for the School District's deposits for custodial credit risk. As of year end, $1,304,499 of the District's bank balance of $1,496,544 was exposed to custodial credit risk because it was uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require a policy for investment custodial credit risk. The School District's policy for custodial credit risk states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law and by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criterial established in the investment policy. The School District did not have investments with custodial credit risk.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified below for investments held at year end.

As of June 30, 2018, the District's investments were rated by Standard and Poor's as follows:

| Investment | Amortized Cost | Rating |
|---|---|---|
| Michigan Liquid Asset Fund | | |
| MILAF Term | $ 1,500,000 | N/A |
| MILAF + MAX Class | 5,962,010 | AAAm |
| MILAF + Cash Management Class | 1,493,044 | AAAm |
| | $ 8,955,054 | |

*Concentration of Credit Risk.* The School District places no limit on the amount the School District may invest in any one issuer. The School District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Fair Value.* The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level I inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The School District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

*Investments in Entities that Calculate Net Asset Value per Share*. The School District holds shares in the Michigan Liquid Asset Fund (MILAF) Term Series whereby the fair value of the investment is measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient.

At year end, the net asset value of the School District's investment in the MILAF Term Series was $1,500,000. The investment pool had no unfunded commitments and requires a minimum investment of $100,000.

The MILAF Term Series provides a fixed rate, fixed-term investment with a minimum maturity of 60 days and a maximum maturity of one year. The pool will allow the School District to set a specific redemption date upon initiation of the investment. Early redemptions are permitted; however, an early redemption fee would apply. The investment pool includes investments which the School District does not control.

The investment pool invests primarily in high quality money market instruments, including certificate of deposits, commercial paper, and U.S. government and agency obligations, to protect the investment principal and provide liquidity.

## 4. RESTRICTED INVESTMENTS

Restricted investments as of June 30, 2018, are comprised of the following:

| | |
|---|---|
| Debt service fund | $ 103,603 |
| 2016 school bond debt retirement fund | 43,768 |
| Sinking fund | 1,153,479 |
| 2016 capital projects fund | 380,756 |
| Total restricted investments | $ 1,681,606 |

## 5. RECEIVABLES AND UNEARNED REVENUE

Accounts receivables as of June 30, 2018, are comprised of the following:

| | General Fund | Nonmajor Funds | Total |
|---|---|---|---|
| **Fund / district-wide financial statements:** | | | |
| Taxes receivable | $ 20,275 | $ 2,184 | $ 22,459 |
| Accounts receivable | 74,597 | 12,152 | 86,749 |
| Due from other governments | 4,502,932 | 10,729 | 4,513,661 |
| Total | $ 4,597,804 | $ 25,065 | $ 4,622,869 |

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognized in connection with resources that have been received but not yet earned. At June 30, 2018, grant and categorical aid payment received prior to meeting all eligibility requirements was $50,149.

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2018, are comprised of the following:

| | General Fund | Nonmajor Governmental Funds | Total |
|---|---|---|---|
| **Fund financial statements:** | | | |
| Accounts payable | $ 632,067 | $ 590,407 | $ 1,222,474 |
| Salaries payable and related accrued liabilities | 3,783,511 | 12,281 | 3,795,792 |
| | $ 4,415,578 | $ 602,688 | 5,018,266 |
| **District-wide financial statements:** | | | |
| Accrued interest payable | | | 24,333 |
| **Total** | | | $ 5,042,599 |

## 7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2018, was as follows:

| | Due from Other Funds | Due to Other Funds |
|---|---|---|
| General fund | $ 317,397 | $ 235,583 |
| Nonmajor governmental funds | 28,742 | 94,380 |
| Internal service funds | - | 16,176 |
| | $ 346,139 | $ 346,139 |

The District reports interfund balances between certain funds. These interfund balances resulted primarily from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

For the year ended June 30, 2018, interfund transfers consisted of the following:

| | Transfers in | Transfers out |
|---|---|---|
| General fund | $ 44,479 | $ 170,996 |
| Nonmajor governmental funds | 170,996 | 43,737 |
| Internal service funds | - | 742 |
| | $ 215,475 | $ 215,475 |

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

## 8. CAPITAL ASSETS AND COMMITMENTS

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

| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
|---|---|---|---|---|---|
| **Governmental activities** | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | $ 822,392 | $ - | $ - | $ - | $ 822,392 |
| Construction in progress | 2,530,196 | 2,890,460 | - | (1,048,441) | 4,372,215 |
| | 3,352,588 | 2,890,460 | - | (1,048,441) | 5,194,607 |
| Capital assets, being depreciated: | | | | | |
| Land improvements | 2,732,599 | 973,689 | - | - | 3,706,288 |
| Buildings and improvements | 25,675,588 | 1,413,463 | - | 1,048,441 | 28,137,492 |
| Furniture and equipment | 3,970,044 | 108,165 | - | - | 4,078,209 |
| Vehicles and buses | 2,016,812 | - | - | - | 2,016,812 |
| | 34,395,043 | 2,495,317 | - | 1,048,441 | 37,938,801 |
| Less accumulated depreciation for: | | | | | |
| Land improvements | (1,889,724) | (100,455) | - | - | (1,990,179) |
| Buildings and improvements | (15,181,594) | (407,027) | - | - | (15,588,621) |
| Furniture and equipment | (2,639,713) | (292,969) | - | - | (2,932,682) |
| Vehicles and buses | (1,727,905) | (77,468) | - | - | (1,805,373) |
| | (21,438,936) | (877,919) | - | - | (22,316,855) |
| Total capital assets being depreciated, net | 12,956,107 | 1,617,398 | - | 1,048,441 | 15,621,946 |
| **Governmental activities capital assets, net** | $ 16,308,695 | $ 4,507,858 | $ - | $ - | $ 20,816,553 |

Depreciation expense of $735,214 was reported as "unallocated depreciation" as it was determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

*Construction Commitments*

At year end, the District has commitments with construction contracts of approximately $4,331,000, and approximately $1,045,000 is outstanding.

## 9. LONG-TERM DEBT

The District issues bonds 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 District. Other long-term obligations include compensated absences and termination leave.

Long-term debt of the District consists of the following at June 30, 2018:

| | Beginning Balance | Additions | Deductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| **Installment debt** | | | | | |
| General obligation bonds | $ 7,300,000 | $ - | $ (515,000) | $ 6,785,000 | $ 490,000 |
| Bond issuance premiums | 168,306 | - | (19,458) | 148,848 | 19,458 |
| Total installment debt | 7,468,306 | - | (534,458) | 6,933,848 | 509,458 |
| **Other long-term liabilities** | | | | | |
| Retiree compensated absences and early termination | 183,458 | - | (47,328) | 136,130 | 83,954 |
| Employee compensated absences and terminal leave | 461,249 | 48,095 | - | 509,344 | - |
| Total other long-term liabilities | 644,707 | 48,095 | (47,328) | 645,474 | 83,954 |
| Total long-term liabilities | $ 8,113,013 | $ 48,095 | $ (581,786) | $ 7,579,322 | $ 593,412 |

Long-term debt at June 30, 2018, includes the following:

**General obligation bonds**

| | |
|---|---|
| 2013 refunding bonds due in annual installments of $250,000 to $430,000; plus interest of 2.0%; final payment due May 1, 2020. | $ 585,000 |
| 2016 capital projects bonds due in annual installments of $155,000 to $575,000; plus interest ranging from 2.00% to 2.75%; final payment due May 1, 2031. | 6,200,000 |
| **Total general obligation bonds** | $ 6,785,000 |

The annual requirements to service the bonds outstanding to maturity, including principal and interest, are as follows:

| Year Ended June 30, | Principal | Interest | Totals |
|---|---|---|---|
| 2019 | $ 490,000 | $ 143,976 | $ 633,976 |
| 2020 | 485,000 | 134,176 | 619,176 |
| 2021 | 500,000 | 124,476 | 624,476 |
| 2022 | 515,000 | 114,476 | 629,476 |
| 2023 | 535,000 | 104,176 | 639,176 |
| 2024-2028 | 2,625,000 | 359,080 | 2,984,080 |
| 2029-2031 | 1,635,000 | 85,676 | 1,720,676 |
| | $ 6,785,000 | $ 1,066,036 | $ 7,851,036 |

Interest expense charged to governmental activities in fiscal 2018 was $154,276.

## 10. PROPERTY TAXES

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1 of the following year. School related property taxes are levied on December 1 each year, based on the previous year's assessment, by township governments whose boundaries include property within the District, and are due on February 28. Delinquent real taxes are advanced to the District by the Revolving Tax Fund of the applicable County. Taxes are recognized as current property tax revenue to the extent that they are collected during the year or within 60 days after year end.

## 11. RETIREMENT PLAN

*Plan Description*

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

The System'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 the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

The System's financial statements are available at the ORS website at www.michigan.gov/orsschools.

*Pension Benefits Provided*

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

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

*Other Postemployment Benefits Provided*

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 healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

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 were deposited into their 401(k) account.

*Contributions*

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 22-year period for the 2017 fiscal year.

The table below summarizes pension contribution rates in effect for fiscal year 2018:

| Benefit Structure | Member Rates | Employer Rates |
|---|---|---|
| Basic | 0.00% - 4.00% | 17.89% - 19.03% |
| Member Investment Plan (MIP) | 3.00% - 7.00% | 17.89% - 19.03% |
| Pension Plus | 3.00% - 6.40% | 16.61% - 18.40% |
| Pension Plus 2 | 6.20% | 19.74% |
| Defined Contribution | 0.00% | 13.54% - 15.27% |

Required contributions to the pension plan from the District were $5,320,448 for the year ended June 30, 2018.

The table below summarizes OPEB contribution rates in effect for fiscal year 2018:

| Benefit Structure | Member Rates | Employer Rates |
|---|---|---|
| Premium Subsidy | 3.00% | 5.91% - 7.67% |
| Personal Healthcare Fund (PHF) | 0.00% | 5.69% - 7.42% |

Required contributions to the OPEB plan from the District were $1,205,578 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of $50,657,663 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. The 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 District's proportion was 0.19548%, which was an increase of 0.00412% from its proportion measured as of September 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of $6,367,226. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources | Net Deferred Outflows (Inflows) of Resources |
|---|---|---|---|
| Differences between expected and actual experience | $ 440,250 | $ 248,567 | $ 191,683 |
| Changes in assumptions | 5,549,949 | - | 5,549,949 |
| Net difference between projected and actual earnings on pension plan investments | - | 2,421,770 | (2,421,770) |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 2,790,663 | 100,434 | 2,690,229 |
| | 8,780,862 | 2,770,771 | 6,010,091 |
| District contributions subsequent to the measurement date | 4,949,434 | - | 4,949,434 |
| **Total** | $ 13,730,296 | $ 2,770,771 | $ 10,959,525 |

$4,949,434 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:

| Year Ended June 30, | Amount |
|---|---|
| 2019 | $ 2,039,358 |
| 2020 | 2,739,326 |
| 2021 | 1,225,602 |
| 2022 | 5,805 |
| **Total** | $ 6,010,091 |

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

At June 30, 2018, the District reported a liability of $17,342,990 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 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 District's proportion was 0.19584%.

For the year ended June 30, 2018, the District recognized OPEB expense of $1,161,482. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources | Net Deferred Outflows (Inflows) of Resources |
|---|---|---|---|
| Differences between expected and actual experience | $ - | $ 184,652 | $ (184,652) |
| Net difference between projected and actual earnings on OPEB plan investments | - | 401,668 | (401,668) |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 6,492 | - | 6,492 |
| | 6,492 | 586,320 | (579,828) |
| District contributions subsequent to the measurement date | 1,051,698 | - | 1,051,698 |
| **Total** | $ 1,058,190 | $ 586,320 | $ 471,870 |

$1,051,698 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 pension expense as follows:

| Year Ended June 30, | Amount |
|---|---|
| 2019 | $ (140,234) |
| 2020 | (140,234) |
| 2021 | (140,234) |
| 2022 | (140,234) |
| 2023 | (18,892) |
| **Total** | $ (579,828) |

*Actuarial Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension and OPEB liabilities in the September 30, 2016 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Actuarial cost method | Entry age, normal |
| Wage inflation rate | 3.5% |
| Investment rate of return: | |
| MIP and Basic plans (non-hybrid) | 7.5% |
| Pension Plus plan (hybrid) | 7.0% |
| OPEB plans | 7.5% |
| Projected salary increases | 3.5% - 12.3%, including wage inflation at 3.5% |
| Cost of living adjustments | 3% annual non-compounded for MIP members |
| Healthcare cost trend rate | 7.5% Year 1 graded to 3.5% Year 12 |
| Mortality | RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females. |
| | |
| Other OPEB assumptions: | |
| Opt out assumptions | 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 coverages 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. |

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.5188 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.4744 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

*Long-Term Expected Return on Plan Assets*

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of September 30, 2017, are summarized in the following table:

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return | Expected Money-Weighted Rate of Return |
|---|---|---|---|
| Domestic equity pools | 28.00% | 5.60% | 1.56% |
| Alternative investment pools | 18.00% | 8.70% | 1.57% |
| International equity | 16.00% | 7.20% | 1.15% |
| Fixed income pools | 10.50% | -0.10% | -0.01% |
| Real estate and infrastructure pools | 10.00% | 4.20% | 0.42% |
| Absolute return pools | 15.50% | 5.00% | 0.78% |
| Short-term investment pools | 2.00% | -0.90% | -0.02% |
| | 100.00% | | 5.45% |
| Inflation | | | 2.05% |
| **Investment rate of return** | | | 7.50% |

*Discount Rate*

A discount rate of 7.5% was used to measure the total pension and OPEB liabilities (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension and OPEB plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension and 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 pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for the Hybrid Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|---|---|---|
| District's proportionate share of the net pension liability | $ 65,990,085 | $ 50,657,663 | $ 37,748,739 |

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

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the District'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 higher:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|---|---|---|
| District's proportionate share of the net OPEB liability | $ 20,313,654 | $ 17,342,990 | $ 14,824,827 |

*Sensitivity of the District's Proportionate Share of the Net OPEB Liability to the Healthcare Cost Trend Rate*

The following presents the District's proportionate share of the net OPEB liability calculated using the assumed trend rates, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is 1 percentage point lower or 1 percentage higher:

| | 1% Decrease (6.5%) | Current Healthcare Cost Trend Rate (7.5%) | 1% Increase (8.5%) |
|---|---|---|---|
| District's proportionate share of the net OPEB liability | $ 14,687,181 | $ 17,342,990 | $ 20,358,476 |

*Pension and OPEB Plans Fiduciary Net Position*

Detailed information about the pension and OPEB plan's fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at www.michigan.gov/orsschools.

## Notes to Financial Statements

*Payable to the Pension Plan*

At June 30, 2018, the District reported a payable of $740,981 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2018.

*Payable to the OPEB Plan*

At June 30, 2018, the District reported a payable of $154,838 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2018.

## 12. STATE OF MICHIGAN SCHOOL AID

The District reports State of Michigan school aid in the fiscal year in which the District is entitled to the revenue as provided by State of Michigan school aid appropriation acts. State funding represented 63% of the District's general fund revenue during the 2018 fiscal year.

## 13. FUND BALANCES - GOVERNMENTAL FUNDS

The County has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is as follows:

| | General Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| Nonspendable for: | | | |
| Inventories | $ - | $ 16,317 | $ 16,317 |
| Prepaids | 78,752 | - | 78,752 |
| Total nonspendable | 78,752 | 16,317 | 95,069 |
| Restricted for: | | | |
| Food service | - | 296,005 | 296,005 |
| Debt service | - | 148,352 | 148,352 |
| Capital projects | - | 956,500 | 956,500 |
| Total restricted | - | 1,400,857 | 1,400,857 |
| Committed for contingency | 3,273,077 | - | 3,273,077 |
| Assigned for: | | | |
| Capital projects | 92,957 | 745,852 | 838,809 |
| Math expressions | 463,991 | - | 463,991 |
| Working capital | 538,987 | - | 538,987 |
| Shiras planetarium | 30,026 | - | 30,026 |
| Total assigned | 1,125,961 | 745,852 | 1,871,813 |
| Total unassigned | 2,613,899 | - | 2,613,899 |
| **Total fund balances, governmental funds** | $ 7,091,689 | $ 2,163,026 | $ 9,254,715 |

## Notes to Financial Statements

### 14. NET INVESTMENT IN CAPITAL ASSETS AND RESTRICTED NET POSITION

The composition of net investment in capital assets as of June 30, 2018, was as follows:

| | Governmental Activities |
|---|---|
| Capital assets: | |
| Capital assets not being depreciated | $ 5,194,607 |
| Capital assets being depreciated, net | 15,621,946 |
| | 20,816,553 |
| Less related debt: | |
| Bonds | 6,785,000 |
| Deferred issuance premiums | 148,848 |
| Deferred charges on bond refunding | (16,892) |
| | 6,916,956 |
| **Net investment in capital assets** | $ 13,899,597 |

The composition of restricted net position as of June 30, 2018, was as follows:

| | Governmental Activities |
|---|---|
| Net position restricted for: | |
| Food service | $ 312,322 |
| Debt service | 124,019 |
| Capital projects | 956,500 |
| **Total restricted net position** | $ 1,392,841 |

### 15. CONTINGENT LIABILITIES

Federal Grant Programs. The District participates in federally assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, not to be material.

Risk Management. The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program, in which the District participates, operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2018.

## Notes to Financial Statements

### 16. RESTATEMENT

The District adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result of this change, beginning net position of governmental activities was decreased by $16,897,706.

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# REQUIRED SUPPLEMENTARY INFORMATION

## Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

### Schedule of the District's Proportionate Share of the Net Pension Liability

| | Year Ended June 30, | | | |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| District's proportionate share of the net pension liability | $ 37,994,108 | $ 44,746,947 | $ 47,743,907 | $ 50,657,663 |
| District's proportion of the net pension liability | 0.17249% | 0.18320% | 0.19136% | 0.19548% |
| District's covered-employee payroll | $ 14,064,634 | $ 15,343,152 | $ 16,011,467 | $ 16,437,561 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 270.14% | 291.64% | 298.19% | 308.18% |
| Plan fiduciary net position as a percentage of the total pension liability | 66.20% | 62.92% | 63.01% | 64.21% |

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

## Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

### Schedule of the District's Pension Contributions

| | Year Ended June 30, | | | |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| Statutorily required contribution | $ 3,325,282 | $ 4,372,055 | $ 4,586,852 | $ 5,320,448 |
| Contributions in relation to the statutorily required contribution | (3,325,282) | (4,372,055) | (4,586,852) | (5,320,448) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| School District's covered payroll | $ 14,624,457 | $ 15,852,960 | $ 16,477,929 | $ 16,551,440 |
| Contributions as a percentage of covered payroll | 22.74% | 27.58% | 27.84% | 32.14% |

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

## Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

### Schedule of the District's Proportionate Share of the Net Other Postemployment Benefit Liability

| | Year Ended June 30, 2018 |
|---|---|
| District's proportion of the net OPEB liability | $ 17,342,990 |
| District's proportionate share of the net OPEB liability | 0.19584% |
| District's covered payroll | $ 16,437,561 |
| District's proportionate share of the net OPEB liability as a percentage of its covered payroll | 105.51% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 36.39% |

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

## Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

### Schedule of the District's Other Postemployment Benefit Contributions

| | Year Ended June 30, 2018 |
|---|---|
| Statutorily required contribution | $ 1,205,578 |
| Contributions in relation to the statutorily required contribution | (1,205,578) |
| Contribution deficiency (excess) | $ - |
| District's covered payroll | $ 16,551,440 |
| Contributions as a percentage of covered payroll | 7.28% |

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

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# COMBINING FUND FINANCIAL STATEMENTS

## MARQUETTE AREA PUBLIC SCHOOLS

### Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

| | Special Revenue Fund | Debt Service Funds | |
|---|---|---|---|
| | School Lunch Fund | Debt Service Fund | 2016 School Bond Debt Retirement Fund |
| **Assets** | | | |
| Cash and cash equivalents | $ 382,512 | $ - | $ - |
| Investments | - | - | - |
| Restricted investments | - | 103,603 | 43,768 |
| Receivables | 12,375 | 808 | 236 |
| Due from other funds | 8,737 | 3 | 2 |
| Inventories | 16,317 | - | - |
| **Total assets** | $ 419,941 | $ 104,414 | $ 44,006 |
| **Liabilities** | | | |
| Accounts payable and accrued liabilities | $ 958 | $ 42 | $ 26 |
| Accrued payroll-related liabilities | 12,281 | - | - |
| Due to other funds | 94,380 | - | - |
| **Total liabilities** | 107,619 | 42 | 26 |
| **Fund balances** | | | |
| Nonspendable | 16,317 | - | - |
| Restricted | 296,005 | 104,372 | 43,980 |
| Assigned | - | - | - |
| **Total fund balances** | 312,322 | 104,372 | 43,980 |
| **Total liabilities and fund balances** | $ 419,941 | $ 104,414 | $ 44,006 |

| Capital Projects Funds | | | |
| --- | --- | --- | --- |
| Capital Projects Fund | Sinking Fund | 2016 Capital Projects Fund | Total Nonmajor Governmental Funds |
| $ - | $ - | $ - | $ 382,512 |
| 725,852 | - | - | 725,852 |
| - | 1,153,479 | 380,756 | 1,681,606 |
| - | 11,646 | - | 25,065 |
| 20,000 | - | - | 28,742 |
| - | - | - | 16,317 |
| $ 745,852 | $ 1,165,125 | $ 380,756 | $ 2,860,094 |
| $ - | $ 360,522 | $ 228,859 | $ 590,407 |
| - | - | - | 12,281 |
| - | - | - | 94,380 |
| - | 360,522 | 228,859 | 697,068 |
| - | - | - | 16,317 |
| - | 804,603 | 151,897 | 1,400,857 |
| 745,852 | - | - | 745,852 |
| 745,852 | 804,603 | 151,897 | 2,163,026 |
| $ 745,852 | $ 1,165,125 | $ 380,756 | $ 2,860,094 |

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds
For the Year Ended June 30, 2018

| | Special Revenue Fund | Debt Service Funds | |
|---|---|---|---|
| | School Lunch Fund | Debt Service Fund | 2016 School Bond Debt Retirement Fund |
| **Revenues** | | | |
| Local sources | $ 440,263 | $ 360,900 | $ 238,611 |
| State sources | 75,628 | 1,711 | - |
| Federal sources | 475,900 | - | - |
| Interdistrict sources | - | - | - |
| **Total revenues** | 991,791 | 362,611 | 238,611 |
| **Expenditures** | | | |
| Current: | | | |
| Support services | - | - | - |
| Food services | 941,701 | - | - |
| Debt service: | | | |
| Principal | - | 430,000 | 85,000 |
| Interest | - | 20,241 | 133,975 |
| Capital outlay | 4,691 | - | - |
| Other financing transactions | - | 2,971 | 780 |
| **Total expenditures** | 946,392 | 453,212 | 219,755 |
| Revenues over (under) expenditures | 45,399 | (90,601) | 18,856 |
| **Other financing sources (uses)** | | | |
| Transfers in | 996 | - | - |
| Transfers out | (23,737) | - | - |
| **Total other financing sources (uses)** | (22,741) | - | - |
| **Net changes in fund balances** | 22,658 | (90,601) | 18,856 |
| Fund balances, beginning of year | 289,664 | 194,973 | 25,124 |
| **Fund balances, end of year** | $ 312,322 | $ 104,372 | $ 43,980 |

| Capital Projects Funds | | | |
| --- | --- | --- | --- |
| Capital Projects Fund | Sinking Fund | 2016 Capital Projects Fund | Total Nonmajor Governmental Funds |
| $ 26,046 | $ 1,154,892 | $ 25,664 | $ 2,246,376 |
| - | - | - | 77,339 |
| - | - | - | 475,900 |
| - | - | 6,025 | 6,025 |
| 26,046 | 1,154,892 | 31,689 | 2,805,640 |
| - | 573 | - | 573 |
| - | - | - | 941,701 |
| - | - | - | 515,000 |
| - | - | - | 154,216 |
| 359,850 | 1,337,073 | 3,447,920 | 5,149,534 |
| - | 2,907 | - | 6,658 |
| 359,850 | 1,340,553 | 3,447,920 | 6,767,682 |
| (333,804) | (185,661) | (3,416,231) | (3,962,042) |
| 170,000 | - | - | 170,996 |
| (20,000) | - | - | (43,737) |
| 150,000 | - | - | 127,259 |
| (183,804) | (185,661) | (3,416,231) | (3,834,783) |
| 929,656 | 990,264 | 3,568,128 | 5,997,809 |
| $ 745,852 | $ 804,603 | $ 151,897 | $ 2,163,026 |

## Schedule of Bond Indebtedness

Year Ended June 30, 2018

| Year Ended June 30, | 2013 Refunding Bond Principal | 2016 Capital Projects Bond Principal |
|---|---|---|
| 2019 | $ 335,000 | $ 155,000 |
| 2020 | 250,000 | 235,000 |
| 2021 | - | 500,000 |
| 2022 | - | 515,000 |
| 2023 | - | 535,000 |
| 2024 | - | 555,000 |
| 2025 | - | 575,000 |
| 2026 | - | 485,000 |
| 2027 | - | 500,000 |
| 2028 | - | 510,000 |
| 2029 | - | 525,000 |
| 2030 | - | 545,000 |
| 2031 | - | 565,000 |
| **Total Principal** | $ 585,000 | $ 6,200,000 |
| Principal payments due | May 1 | May 1 |
| Interest payments due | November 1 and May 1 | November 1 and May 1 |
| Interest rate | 2.0% | 2.0% - 2.75% |
| Original issue | $ 3,285,000 | $ 6,285,000 |

# SINGLE AUDIT ACT COMPLIANCE

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**Independent Auditors' Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

October 17, 2018

The Board of Education
Marquette Area Public Schools
Marquette, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the *Marquette Area Public Schools* (the "District") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 17, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Rehmann Robson LLC

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## Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

| Federal Agency / Cluster / Program Title | CFDA Number | Passed Through | Pass-through / Grantor Number | Approved Grant Award Amount |
|---|---|---|---|---|
| **U.S. Department of Agriculture** | | | | |
| Child Nutrition Cluster: | | | | |
| Cash assistance: | | | | |
| National school lunch - breakfast | 10.553 | MDE | 171970 | $ 78,921 |
| National school lunch - breakfast | 10.553 | MDE | 181970 | 70,113 |
| National school lunch section 11 all lunches | 10.555 | MDE | 171960 | 382,669 |
| National school lunch section 11 all lunches | 10.555 | MDE | 181960 | 328,232 |
| National school lunch - summer program | 10.559 | MDE | 180900 | 1,651 |
| National school lunch - summer program | 10.559 | MDE | 181900 | 516 |
| Non-cash assistance: | | | | |
| Entitlement commodities | 10.555 | MDE | n/a | 101,488 |
| **Total U.S. Department of Agriculture** | | | | 963,590 |
| **U.S. Department of Education** | | | | |
| Title I, Part A - Improving Basic Programs | 84.010 | MDE | 171530-1617 | 347,555 |
| Title I, Part A - Improving Basic Programs | 84.010 | MDE | 181530-1718 | 389,569 |
| | | | | 737,124 |
| Handicapped Persons Title IV - B: Flowthrough | 84.027 | MARESA | 170450-1718 | 98,886 |
| Carl Perkins VEA | 84.048 | MARESA | 163520-1617 | 16,165 |
| Carl Perkins VEA | 84.048 | MARESA | 173520-1718 | 12,779 |
| | | | | 28,944 |
| Indian education | 84.060A | Direct | S060A170067 | 47,736 |
| Indian education | 84.060A | Direct | S060A180067 | 47,693 |
| | | | | 95,429 |
| Title II, Part A - Improving Teacher Quality | 84.367 | MDE | 170520-1617 | 215,572 |
| Title II, Part A - Improving Teacher Quality | 84.367 | MDE | 180520-1718 | 70,730 |
| | | | | 286,302 |
| Title IV - Student Support and Academic Enrichment Program | 84.424A | MDE | 180750-1718 | 10,000 |
| **Total U.S. Department of Education** | | | | 1,256,685 |
| **U.S. Department of Health and Human Services** | | | | |
| Medicaid Cluster: | | | | |
| Medicaid Outreach | 93.778 | MARESA | 17/18 | 9,421 |
| **Total Federal Financial Assistance** | | | | $ 2,229,696 |

See notes to schedule of expenditures of federal awards.

| Accrued (Unearned) Revenue June 30, 2017 | Current Year Cash Received | Expenditures (Memo Only) Prior Year(s) | Expenditures Year Ended June 30, 2018 | Accrued (Unearned) Revenue June 30, 2018 |
|---|---|---|---|---|
| $ - | $ 6,464 | $ 72,457 | $ 6,464 | $ - |
| - | 63,649 | - | 63,649 | - |
| - | 39,788 | 342,881 | 39,788 | - |
| - | 288,444 | - | 288,444 | - |
| - | - | - | 1,651 | 1,651 |
| - | - | - | 516 | 516 |
| | | | | - |
| - | 75,388 | - | 75,388 | - |
| - | 473,733 | 415,338 | 475,900 | 2,167 |
| 16,593 | 25,605 | 330,785 | 9,012 | |
| - | 339,196 | - | 339,334 | 138 |
| 16,593 | 364,801 | 330,785 | 348,346 | 138 |
| - | 98,886 | - | 98,886 | - |
| 8,979 | 8,979 | 16,165 | - | - |
| - | 12,779 | - | 12,779 | - |
| 8,979 | 21,758 | 16,165 | 12,779 | - |
| 4,360 | 4,360 | 47,736 | - | - |
| - | 47,693 | - | 47,693 | - |
| 4,360 | 52,053 | 47,736 | 47,693 | - |
| 28,825 | 28,825 | 164,288 | - | - |
| - | 39,359 | - | 39,839 | 480 |
| 28,825 | 68,184 | 164,288 | 39,839 | 480 |
| - | 10,000 | - | 10,000 | - |
| 58,757 | 615,682 | 558,974 | 557,543 | 618 |
| - | 9,421 | - | 9,421 | - |
| $ 58,757 | $ 1,098,836 | $ 974,312 | $ 1,042,864 | $ 2,785 |

## Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

**Reconciliation to grant section auditors' report**

| | | |
|---|---|---|
| Current payments per the grant auditor report | $ | 841,330 |
| Plus | | |
| Entitlement commodities | | 75,388 |
| Amounts passed through Marquette - Alger Regional Educational Service Agency | | 130,065 |
| Direct award from Department of Education | | 52,053 |
| **Total current year cash receipts per schedule of expenditures of federal awards** | $ | 1,098,836 |

See notes to schedule of expenditures of federal awards.

## Notes to Schedule of Expenditures of Federal Awards

### 1. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Marquette Area Public Schools (the "District") under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met. Total expenditures on the Schedule agree to total federal revenues on the Statement of Revenues, Expenditures and Changes in Fund Balances.

The Schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this Schedule. The amounts reported on the Recipient Entitlement Balance (PAL) Report agree with this schedule for USDA donated food commodities. Spoilage and pilferage are included in expenditure amounts reported.

For purposes of charging indirect costs to federal awards, the District has not used the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

### 3. PASS THROUGH AGENCIES

The District receives certain federal grant as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

| Pass-through Agency Abbreviation | Pass-through Agency Name |
|---|---|
| MARESA | Marquette - Alger Regional Educational Service Agency |
| MDE | Michigan Department of Education |

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**Independent Auditors' 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*

October 17, 2018

The Board of Education
Marquette Area Public Schools
Marquette, 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, the major fund, and the aggregate remaining fund information of the *Marquette Area Public Schools* (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 17, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 District'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.

Rehmann Robson LLC

Rehmann

**Rehmann Robson**

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**Independent Auditors' Report on Compliance for the Major Federal Program and Internal Control over Compliance Required by the Uniform Guidance**

October 17, 2018

The Board of Education
Marquette Area Public Schools
Marquette, Michigan

**Report on Compliance for the Major Federal Program**

We have audited the compliance of the *Marquette Area Public Schools* (the "District") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

*Independent Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

*Opinion on the Major Federal Program*

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

**Report on Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

*Purpose of this Report*

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Rehmann Robson LLC

## MARQUETTE AREA PUBLIC SCHOOLS

**Schedule of Findings and Questioned Costs**
For the Year Ended June 30, 2018

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

| | | |
|---|---|---|
| Material weakness(es) identified? | ____ yes | X no |
| Significant deficiency(ies) identified? | ____ yes | X none reported |
| Noncompliance material to financial statements noted? | ____ yes | X no |

**Federal Awards**

Internal control over major programs:

| | | |
|---|---|---|
| Material weakness(es) identified? | ____ yes | X no |
| Significant deficiency(ies) identified? | ____ yes | X none reported |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | ____ yes | X no |

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster | Type of Report |
|---|---|---|
| 84.010 | Title I, Part A - 2018 Regular | Unmodified |

Dollar threshold used to distinguish between Type A and Type B programs: $ 750,000

Auditee qualified as low-risk auditee? X yes ____ no

## Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

### SECTION II – FINANCIAL STATEMENT FINDINGS

No financial statement findings.

## Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No federal award findings and questioned costs.

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# MARQUETTE AREA PUBLIC SCHOOLS

## Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2018

No findings in the prior year.

Rehmann

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# INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

October 17, 2018

Board of Education
Marquette Area Public Schools
Marquette, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of *Marquette Area Public Schools* (the "District") as of and for the year ended June 30, 2018, and have issued our report thereon dated October 17, 2018. Professional standards require that we advise you of the following matters relating to our audit.

## Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated May 24, 2018, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated October 17, 2018.

## Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on August 29, 2018.

**Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

**Qualitative Aspects of the District's Significant Accounting Practices**

*Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements.

As described in Note 16 to the financial statements, the District changed accounting policies related to Its accounting for its proportionate share of the net other postemployment benefit (OPEB) liability of the Michigan Public School Employees Retirement System (MPSERS) by adopting Statement of Governmental Accounting Standards (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The cumulative effect of the accounting change as of the beginning of the year is reported is reported in the Statement of Activities.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

*Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- 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 are based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units. In addition, the financial statements include a net pension and OPEB liabilities and other related amounts, which are dependent on estimates made by the plan. These estimates are based on historical trends and industry standards, but are not within the control of District's management.

**Significant Difficulties Encountered During the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

**Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

The schedule of adjustments passed is included with management's written representations in Attachment B to this letter, and summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

**Representations Requested from Management**

We have requested certain written representations from management, which are included in Attachment B to this letter.

**Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

**Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

## Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. 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.

## Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment A to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

This information is intended solely for the use of the governing body and management of Marquette Area Public Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Rehmann Robson LLC

## Attachment A – Upcoming Changes in Accounting Standards / Regulations
For the June 30, 2018 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the District in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the District. For the complete text of these and other GASB standards, visit www.gasb.org and click on the "Standards & Guidance" tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

**GASB 83 ■ Certain Asset Retirement Obligations**
*Effective 06/15/2019 (your FY 2019)*

This standard addresses accounting and financial reporting for certain asset retirement obligations--legally enforceable liabilities associated with the retirement of a tangible capital asset. We do not expect this standard to have any significant effect on the District.

**GASB 84 ■ Fiduciary Activities**
*Effective 12/15/2019 (your FY 2020)*

This standard establishes new criteria for determining how to report fiduciary activities in governmental financial statements. The focus is on whether the government is controlling the assets, and who the beneficiaries are. Under this revised standard, certain activities previously reported in agency funds may be reclassified in future periods. Due to the number of specific factors to consider, we will continue to assess the degree to which this standard may impact the District.

**GASB 87 ■ Leases**
*Effective 12/15/2020 (your FY 2021)*

This standard establishes a single model for reporting all leases (including those previously classified as operating and capital). Lessees will now report offsetting intangible lease assets and lease liabilities equal to the present value of future lease payments. Lessors will report offsetting lease receivables and deferred inflows of resources.

**GASB 88 ■ Certain Disclosures Related to Debt**
*Effective 06/15/2019 (your FY 2019)*

This standard provides guidance on note disclosures related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. We do not expect this standard to have any significant effect on the District.

**GASB 89 ■ Accounting for Interest Cost Incurred before the End of a Construction Period**
*Effective 12/15/2020 (your FY 2021)*

This standard eliminates the requirement for governments to capitalize interest during the construction period for business-type activities. As this simplifies the accounting for interest, early implementation is encouraged. We do not expect this standard to have any significant effect on the District.

## Attachment A – Upcoming Changes in Accounting Standards / Regulations
For the June 30, 2018 Audit

**GASB 90 ■ Majority Equity Interests**
*Effective 12/15/2019 (your FY 2020)*

This standard addresses situations in which a government acquires a majority of the equity interest in a legally separate organization, and whether such holdings should be reported as an investment or a component unit. We do not expect this standard to have any significant effect on the District.

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MARQUETTE AREA PUBLIC SCHOOLS

## Attachment B – Management Representations

For the June 30, 2018 Audit

The following pages contain the written representations that we requested from management.

MARQUETTE AREA PUBLIC SCHOOLS
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MARQUETTE, MICHIGAN 49855
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William Saunders, Superintendent

Debra Barry, Assistant Superintendent

October 17, 2018

Rehmann Robson
P.O. Box 250
Cheboygan, MI 49721

This representation letter is provided in connection with your audit of the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the *Marquette Area Public Schools* (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, and the budgetary comparison for the General Fund of the District in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of **October 17, 2018**:

**Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 24, 2018, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

7. The effects of uncorrected misstatements summarized in the attached schedule and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion unit and to the financial statements as a whole.
8. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
9. With regard to items reported at fair value:
    a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
    b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
    c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
    d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
10. All funds and activities are properly classified.
11. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
12. All components of net position and fund balance classifications have been properly reported.
13. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
14. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
15. All interfund and intra-entity transactions and balances have been properly classified and reported.
16. Deposit and investment risks have been properly and fully disclosed.
17. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
18. All required supplementary information is measured and presented within the prescribed guidelines.
19. We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.
20. We are responsible for the fair presentation of the District's proportionate share of the net pension liability and the net other postemployment benefit liability of the Michigan Public School Employees Retirement System (MPSERS) and related amounts. We provided MPSERS with complete and accurate information regarding the District's participation in the plan, and have reviewed the information provided by MPSERS for inclusion in the District's financial statements.

**Information Provided**

21. We have provided you with:
    a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
    b. Additional information that you have requested from us for the purpose of the audit; and
    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
22. All transactions have been recorded in the accounting records and are reflected in the financial statements.

23. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
24. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
    a. Management;
    b. Employees who have significant roles in internal control; or
    c. Others where the fraud could have a material effect on the financial statements.
25. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
26. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
27. We have disclosed to you the identity of the District's related parties and all the related party relationships and transactions of which we are aware.
28. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
29. The District has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
30. We have disclosed to you all guarantees, whether written or oral, under which the District is contingently liable.
31. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
32. There are no:
    a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
    b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
33. The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
34. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
35. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

**Supplementary Information in Relation to the Financial Statements as a Whole**

36. With respect to the supplementary information accompanying the financial statements:
    a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.
    b. We believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.

c. The methods of measurement or presentation have not changed from those used in the prior period.
d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

**Required Supplementary Information**

37. With respect to the required supplementary information accompanying the financial statements:
    a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
    b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
    c. The methods of measurement or presentation have not changed from those used in the prior period.
    d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

**Uniform Guidance (2 CFR 200)**

38. With respect to federal awards, we represent the following to you:
    a. We are responsible for understanding and complying with and have complied with the requirements of the Uniform Guidance.
    b. We are responsible for the preparation and presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance.
    c. We believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with the Uniform Guidance.
    d. The methods of measurement or presentation have not changed from those used in the prior period.
    e. We believe the significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.
    f. We are responsible for including the auditor's report on the schedule of expenditures of federal awards in any document that contains the schedule and that indicates that the auditor has reported on such information.
    g. When the schedule of expenditures of federal awards is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users of the schedule of expenditures of federal awards no later than the date of issuance by the entity of the schedule of expenditures of federal awards and the auditor's report thereon.
    h. We have, in accordance with the Uniform Guidance, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, food commodities, direct appropriations, and other assistance.
    i. We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and

grant agreements that are considered to have a direct and material effect on each major federal program; and we have complied, in all material respects, with these requirements.

j. We have provided to you our interpretations of any compliance requirements that have varying interpretations.
k. We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to federal programs that provide reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies, including material weaknesses, reported in the schedule of findings and questioned costs.
l. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to federal programs.
m. We have received no requests from a federal agency to audit one or more specific programs as a major program.
n. We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews. We also know of no instances of noncompliance occurring subsequent to the end of the period audited.
o. We have charged costs to federal awards in accordance with applicable cost principles, including amounts claimed or used for matching determined in accordance with relevant guidelines in the Uniform Guidance.
p. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
q. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared (and are prepared on a basis consistent with the schedule of expenditures of federal awards).
r. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
s. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
t. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
u. We are responsible for and have accurately completed the appropriate sections of the Data Collection Form as required by the Uniform Guidance, and we are responsible for preparing and implementing a correction action plan for each audit finding.
v. We have disclosed all contracts or other agreements with service organizations and disclosed to you all communications from these service organizations relating to noncompliance at the organizations.
w. We have reviewed, approved, and taken responsibility for the financial statements and related notes.

x. We have disclosed to you the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.

William B. Saunders

William Saunders, Superintendent

Debra Barry

Debra Barry, Assistant Superintendent