MORAN TOWNSHIP SCHOOL DISTRICT
Mackinac County, Michigan

Annual Financial Report

For the year ended June 30, 2016

Hungerford Nichols CPAs + Advisors
Where good ideas add up

MORAN TOWNSHIP SCHOOL DISTRICT
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Financial Section

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

October 3, 2016

The Board of Education
Moran Township School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Moran Township School District (the "District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Moran Township School District as of June 30, 2016, and the respective changes in financial position and budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information, as 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 assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Moran Township School District's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual 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 3, 2016 on our consideration of Moran Township School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Moran Township School District's internal control over financial reporting and compliance.

Hungerford Nichols

Certified Public Accountants

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Moran Township School District ("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, 2016. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of four parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Position and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.

- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.

  - *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

  - *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data; Required Supplementary Information includes pension information schedules; Other Supplementary Information follows and includes combining and individual fund statements and schedules.

District-wide Statements

The District-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position, and how it has changed. Net position - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

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

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

In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities*: The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

Condensed District-wide Financial Information

The Statement of Net Position provides financial information on the District as a whole.

	2016	2015
Assets		
Current assets	$ 2,474,060	$ 1,886,033
Noncurrent assets	914,432	956,626
Total Assets	**3,388,492**	**2,842,659**
Deferred Outflows of Resources	**376,785**	**181,612**
Liabilities		
Current liabilities	203,712	188,693
Noncurrent liabilities	56,412	47,598
Net pension liability	1,452,581	1,087,004
Total Liabilities	**1,712,705**	**1,323,295**
Deferred Inflows of Resources	**4,811**	**120,169**
Net Position		
Net investment in capital assets	914,432	956,626
Restricted	226,088	226,581
Unrestricted	907,241	397,600
Total Net Position	**$ 2,047,761**	**$ 1,580,807**

The Statement of Activities presents changes in net position from operating results:

	2016	2015
Program Revenues		
Charges for services	$ 15,615	$ 14,485
Operating grants	169,394	182,603
General Revenues		
Property taxes	1,695,837	1,452,864
State school aid, unrestricted	34,527	14,267
Interest and investment earnings	19,442	12,597
Other	3,697	9,626
Total Revenues	1,938,512	1,686,442
Expenses		
Instruction	865,412	740,277
Supporting services	496,253	456,134
Food service	53,678	56,832
Depreciation – unallocated	56,215	72,036
Total Expenses	1,471,558	1,325,279
Increase in net position	466,954	361,163
Net Position - Beginning of Year	1,580,807	1,219,644
Net Position - End of Year	**$ 2,047,761**	**$ 1,580,807**

Financial Analysis of the District as a Whole

Total revenues exceeded expenses by $466,954 on the Statement of Activities, increasing total net position from $1,580,807 at June 30, 2015 to $2,047,761 at June 30, 2016. Unrestricted Net Position increased from $397,600 (adjusted for net pension liability) at June 30, 2015 to $907,241 at June 30, 2016. The District's net pension liability, including deferred outflows and inflows of resources, increased by $55,056 during the fiscal year.

The District's financial position is the product of many factors. Funds generated by local property tax collection accounted for the largest portion of increased revenue.

The District's total revenues were $1.94 million. Property taxes and unrestricted State aid accounted for most of the District's revenues, contributing 89 percent of the total. The remainder came from State and federal aid for specific programs (10 percent), fees charged for services, interest earnings and other local sources.

The total cost of all programs was $1.47 million. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (61 percent). The District's operation and maintenance services accounted for 7 percent of total costs.

The current position of the District's finances can be credited to careful and continuous monitoring.

- The District has conducted a thorough budget analysis and has broken the budget down into specific components and their related expenses. This has allowed the District to prioritize expenses, with the main goal of providing the maximum amount of funding possible to direct instructional services.

- Regular updates were provided to the Board of Education during the school year. This information is also presented to the community via the District's website, staff meetings and media outlets.

- Collaboration with a near-by district and the area intermediate school district have helped reduce expenditures in many areas. Moran Township School District contracts with St. Ignace Area School to provide transportation, athletics, and band services. The Eastern Upper Peninsula Intermediate School District provides specialized special education services as well as professional development activities for staff.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. As a general rule, fund balances from one fund are prohibited from being expended on expenditures of another fund.

The District utilizes two kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.

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

Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Moran Township School District's funds are described as follows:

Major Funds

- The General Fund is our primary operating fund. The General Fund had total revenues of $1,895,155, total expenditures of $1,304,154, and other financing uses of $21,000. The General Fund ended the fiscal year with a fund balance of $2,047,760, up from $1,477,759 at June 30, 2015.

- The Building and Site Capital Projects Fund accounts for interest earnings, and allowable capital improvement expenditures. Total revenues were $1,466, with zero expenditures for the fiscal year. The fund balance at year end was $213,113, up from $211,647 at June 30, 2015.

Nonmajor Fund

- The Food Service Fund, which administers the hot lunch program of the District, had total revenues of $41,891, total other financing sources of $21,000, and total expenditures of $64,850 in 2015-16, decreasing its fund balance to $12,975 at June 30, 2016 from $14,934 at June 30, 2015.

Fiduciary Fund

- The Student Activities Fund is operated as an Agency Fund of the District. The assets of this fund are being held for the benefit of District students. Balances on hand at June 30, 2016 totaled $14,078.

General Fund Budgetary Highlights

During the course of the year, the District continuously reviews the annual operating budget after the June adoption. Changes in the budget are due to the following:

- Changes made based on information contained on the State Aid Financial Status Report. Moran Township School District does not receive a per pupil state aid foundation allowance as the District is identified as out-of-formula. However, MTSD does receive other state aid categoricals which are often adjusted throughout year.

- Final amendments are made in June for increases in appropriations to prevent budget overruns and reductions in expenses put into place by the administration.

- The final budget for the General Fund anticipated an excess of $513,738 in revenue over expenditures. However, of that amount, the Board of Education passed resolutions to increase existing Assigned Fund Balances as well creating an additional one.

- The increase in fund balance was due primarily to taxable value increases relative to non-homestead and non-qualified parcels within boundaries of the District. In May of 2015, the Board of Education decreased the authorized millage rate of 16.8734 to 14.8734. However, due to large increases in taxable values for area electrical and power companies, the District collected nearly the same amount as prior year when the rate was at 16.8734 mills. For the upcoming fiscal year, by Board resolution and L-4029 reporting process, the District has reduced their requested millage levy to 12.8734 mills.

Capital Asset and Debt Administration

Capital Assets

By the end of 2016, the District had a $3,062,762 investment in a broad range of capital assets, including land, school buildings, athletic facilities, vehicles, computer equipment and software, and administrative offices. (More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.)

At June 30, 2016, the District's investment in capital assets (net of accumulated depreciation), was $914,432. Capital asset additions totaled $14,021 for the fiscal year, with accumulated depreciation increasing $56,215, leaving a net decrease in the book value of capital assets of $42,194.

The District's net investment in capital assets, including land, land improvements, buildings and additions, vehicles and furniture and equipment, is detailed as follows:

Land	$ 79,093
Land improvements	209,357
Buildings and additions	584,649
Furniture and equipment	41,333
Net Capital Assets	$ 914,432

Long-term Debt

The District's only long-term obligations include early retirement incentive and accumulated sick leave totaling $59,912 at June 30, 2016. We present more detailed information about our long-term liabilities in Note F in the Notes to Basic Financial Statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

- The State of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Educational Assessment Program and the Michigan Merit Exam) are compared from year to year, with the results being tabulated by school building and by district. With the changes to the federal Title I legislation resulting from the No Child Left Behind Act, adequate yearly progress of students will be more important as certain portions of funding are tied to it.

- Cost increases exceeding the general rate of inflation continue to be expected for the District relative to health care and pension contribution obligations in 2015-16 and beyond. These costs represent a significant portion of the District's budget and their rate of increase is a concern to management.

- The District and bargaining units negotiated a four-year contract expiring June 30, 2019. The current contract provides health insurance utilizing MESSA Choices Plan as the standard plan with staff paying the amount that exceeds the published public employer contributions to medical benefit plans annual cost limitations. Recent changes to laws regulating the bidding and procurement of health insurance may change the way insurance is provided to the bargaining units.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Moran Township School District, W1828 Gros Cap Road, St Ignace, MI 49781, (906) 643-7970.

BASIC FINANCIAL STATEMENTS

MORAN TOWNSHIP SCHOOL DISTRICT
Statement of Net Position
June 30, 2016

	Governmental Activities
Assets	
Cash equivalents (Note B)	$ 2,443,329
Accounts receivable	975
Due from other governmental units (Note C)	19,937
Prepaid expenses	8,589
Inventory	1,230
Capital assets not being depreciated (Note E)	79,093
Capital assets being depreciated, net (Note E)	835,339
Total Assets	3,388,492
Deferred Outflows of Resources	
Deferred pension amounts	376,785
Liabilities	
Accounts payable	23,732
Due to other governmental units	128,153
Salaries payable	48,327
Long-term liabilites: (Note F)	
Due within one year	3,500
Due in more than one year	56,412
Net pension liability	1,452,581
Total Liabilities	1,712,705
Deferred Inflows of Resources	
Deferred pension amounts	4,811
Net Position	
Net investment in capital assets	914,432
Restricted for:	
Capital outlay	213,113
Food service	12,975
Unrestricted	907,241
Total Net Position	$ 2,047,761

See accompanying notes to basic financial statements.

MORAN TOWNSHIP SCHOOL DISTRICT
Statement of Activities
For the year ended June 30, 2016

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenue and Changes In Net Position
Governmental Activities				
Instruction	$ 865,412	$ -	$ 140,103	$ (725,309)
Supporting services	496,253	3,158	-	(493,095)
Food service	53,678	12,457	29,291	(11,930)
Depreciation - unallocated*	56,215	-	-	(56,215)
Total Governmental Activities	$ 1,471,558	$ 15,615	$ 169,394	(1,286,549)
General Revenues				
Taxes:				
Property taxes, levied for general operations				1,695,837
State school aid, unrestricted				34,527
Interest and investment earnings				19,442
Other				3,697
Total General Revenues				1,753,503
Change in Net Position				466,954
Net Position - Beginning of Year				1,580,807
Net Position - End of Year				$ 2,047,761

*This amount excludes direct depreciation expenses of the various programs.

See accompanying notes to basic financial statements.

MORAN TOWNSHIP SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2016

	General	Building and Site	Nonmajor	Total
Assets				
Cash equivalents (Note B)	$ 2,214,878	$ 213,113	$ 15,338	$ 2,443,329
Accounts receivable	736	-	239	975
Due from other funds (Note D)	3,997	-	244	4,241
Due from other governmental units (Note C)	19,937	-	-	19,937
Prepaid expenses	8,589	-	-	8,589
Inventory	-	-	1,230	1,230
Total Assets	$ 2,248,137	$ 213,113	$ 17,051	$ 2,478,301
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 23,653	$ -	$ 79	$ 23,732
Due to other funds (Note D)	244	-	3,997	4,241
Due to other governmental units	128,153	-	-	128,153
Salaries payable	48,327	-	-	48,327
Total Liabilities	200,377	-	4,076	204,453
Fund Balances (Note A)				
Nonspendable	8,589	-	1,230	9,819
Restricted	-	213,113	11,745	224,858
Committed for compensated absences	59,912	-	-	59,912
Assigned	627,000	-	-	627,000
Unassigned	1,352,259	-	-	1,352,259
Total Fund Balances	2,047,760	213,113	12,975	2,273,848
Total Liabilities and Fund Balances	$ 2,248,137	$ 213,113	$ 17,051	$ 2,478,301

See accompanying notes to basic financial statements.

MORAN TOWNSHIP SCHOOL DISTRICT
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2016

Total governmental fund balances		$ 2,273,848
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 as assets in governmental funds. The cost of assets is $3,062,762 and accumulated depreciation is $2,148,330.		914,432
Long-term liabilities, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Early retirement incentive	$ (22,800)	
Accumulated sick leave	(37,112)	(59,912)
Net pension liability and related deferred outflows/inflows of resources are not included as assets/liabilities in governmental funds:		
Net pension liability	(1,452,581)	
Deferred outflows	376,785	
Deferred inflows	(4,811)	(1,080,607)
Total net position - governmental activities		$ 2,047,761

See accompanying notes to basic financial statements.

MORAN TOWNSHIP SCHOOL DISTRICT
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2016

	General	Building and Site	Nonmajor	Total
Revenues				
Local sources	$ 1,720,525	$ 1,466	$ 12,600	$ 1,734,591
State sources	100,724	-	593	101,317
Federal sources	64,285	-	28,698	92,983
Interdistrict sources	9,621	-	-	9,621
Total Revenues	1,895,155	1,466	41,891	1,938,512
Expenditures				
Current:				
Instruction	830,017	-	-	830,017
Supporting services	474,137	-	-	474,137
Food service	-	-	64,850	64,850
Total Expenditures	1,304,154	-	64,850	1,369,004
Excess (Deficiency) of Revenues Over Expenditures	591,001	1,466	(22,959)	569,508
Other Financing Sources (Uses)				
Transfers in	-	-	21,000	21,000
Transfers out	(21,000)	-	-	(21,000)
Total Other Financing Sources (Uses)	(21,000)	-	21,000	-
Net Change in Fund Balances	570,001	1,466	(1,959)	569,508
Fund Balances, Beginning of Year	1,477,759	211,647	14,934	1,704,340
Fund Balances, End of Year	$ 2,047,760	$ 213,113	$ 12,975	$ 2,273,848

See accompanying notes to basic financial statements.

MORAN TOWNSHIP SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the year ended June 30, 2016

Net change in fund balances - total governmental funds			$ 569,508
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 these assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:			
	Capital outlays	$ 14,021	
	Depreciation expense	(56,215)	(42,194)
In the Statement of Net Position, early retirement incentive and accumulated sick leave are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits earned ($8,814) exceeded the amounts used/paid ($3,500).			(5,314)
The changes in net pension liability and related deferred outflows/inflows of resources are not included as revenues/expenditures in governmental funds.			(55,046)
Total changes in net position - governmental activities			$ 466,954

See accompanying notes to basic financial statements.

MORAN TOWNSHIP SCHOOL DISTRICT
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2016

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Local sources	$ 1,630,000	$ 1,721,491	$ 1,720,525	$ (966)
State sources	90,000	99,822	100,724	902
Federal sources	92,000	70,399	64,285	(6,114)
Interdistrict sources	4,000	3,353	9,621	6,268
Total Revenues	1,816,000	1,895,065	1,895,155	90
Expenditures				
Current:				
Instruction:				
Basic programs	802,000	739,126	702,439	36,687
Added needs	101,485	126,454	127,578	(1,124)
Supporting services:				
Pupil services	26,866	26,344	25,658	686
Instructional staff services	1,800	733	733	-
General administrative services	140,000	118,986	110,865	8,121
School administrative services	48,378	49,566	47,791	1,775
Business services	46,790	45,746	43,815	1,931
Operation and maintenance services	245,508	116,307	109,751	6,556
Pupil transportation services	95,000	95,000	94,048	952
Central services	68,000	14,065	13,753	312
Other supporting services	-	28,000	27,723	277
Total Expenditures	1,575,827	1,360,327	1,304,154	56,173
Excess of Revenues Over Expenditures	240,173	534,738	591,001	56,263
Other Financing Sources (Uses)				
Transfers out	(21,000)	(21,000)	(21,000)	-
Net Change in Fund Balances	219,173	513,738	570,001	56,263
Fund Balances, Beginning of Year	1,477,759	1,477,759	1,477,759	-
Fund Balances, End of Year	$ 1,696,932	$ 1,991,497	$ 2,047,760	$ 56,263

See accompanying notes to basic financial statements.

MORAN TOWNSHIP SCHOOL DISTRICT
Fiduciary Funds
Statement of Fiduciary Assets and Liabilities
June 30, 2016

	Agency Fund
Assets	
Cash equivalents (Note B)	$ 14,078
Liabilities	
Due to student groups	$ 14,078

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

Note A – Summary of Significant Accounting Policies

Moran Township School District was organized under the School Code of the State of Michigan, and services a population of approximately 90 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, athletic activities, special education, and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Moran Township School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District's significant accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District's financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. District-wide and Fund Financial Statements

District-wide Financial Statements - The district-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District does not have any *business-type activities*.

The Statement of Net Position is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District's net position is reported in three parts: net investment in capital assets, restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental 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. The General Fund and the Building and Site Capital Projects Fund are the District's major funds. Non-major funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate schedules.

Revenues are recognized when susceptible to accrual; i.e., 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 District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a State-wide formula. The foundation allowance is funded from a combination of State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with State law and accounting principles generally accepted in the United States of America.

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

Major Funds:

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

Capital Projects Funds—Capital Projects Funds are used to record the property tax revenues, bond proceeds, investment earnings and the disbursement of the monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The Building & Site Capital Projects Fund includes capital project activities funded with sinking fund millage; the District has complied with the applicable provisions of Section 1212 (I) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Nonmajor Funds:

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Fund maintained by the District is the Food Service Special Revenue Fund.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

Agency Funds—Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

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

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Moran Township School District has also adopted a budget for its Food Service Special Revenue Fund. A school district's Budget Appropriations Act (the “budget”) must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the function level. All appropriations lapse at the end of the fiscal year.

Moran Township School District utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, the Superintendent and Business Manager, with input from professional and support staff representatives, and Board finance committee members, establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventory/Prepaid Items

Inventories are valued at cost (first-in, first-out), and are accounted for using the consumption method. Inventories of the General Fund consist of teaching and custodial supplies, while inventories of the Food Service Fund consist of food, and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide and fund financial statements. The cost of prepaid items is recorded as expenses/expenditures when consumed (consumption method) rather than when purchased.

8. Capital Assets

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

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

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

Land improvements	20-50 years
Buildings and additions	20-50 years
Furniture and equipment	5-10 years

9. Early Retirement Incentive/Accumulated Sick Leave

Early retirement incentive and accumulated sick leave at June 30, 2016 have been computed and recorded in the basic financial statements of the District. Eligible District employees who select early retirement are entitled to a termination leave payment based on their hire date. Employees who leave the District are also entitled to reimbursement for a portion of their unused sick days. At June 30, 2016, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for early retirement incentive and accumulated sick leave amounted to $22,800 and $37,112, respectively.

10. Retirement Plan

Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, were implemented by the District during the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actual present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Cost sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans – pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

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

11. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has only one type of item that qualifies for reporting in this category: the deferred outflows relating to the recognition of net pension liability on the financial statements.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will *not* be recognized as in inflow of resources (revenue) until that time. The District has only one type of item that qualifies for reporting in this category: the deferred inflows of resources relating to the recognition of net pension liability on the financial statements.

12. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws or regulations from other governments.

13. Fund Balance

The District had adopted Governmental Accounting Standards Board (GASB) Statement No. 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*". The stated objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement 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 as follows:

- Nonspendable – resources that cannot be spent because they are either (a) not in spendable form (inventories and prepaid amounts) or (b) legally or contractually required to be maintained intact (the principal of a permanent fund).
- Restricted – resources that cannot be spent because of (a) constraints externally imposed by creditors (debt covenants), grantors, contributors, or laws or regulations or (b) imposed by law through constitutional provisions or enabling legislation and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.
- Committed – resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (Board of Education). Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified uses by taking the same type of action it employed to previously commit those amounts. Committed fund balance does not lapse at year end.
- Assigned – resources that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body or official to which the governing body has designated the authority to assign amounts to be used for specific purposes. Moran Township School District' Board of Education has delegated

authority to assign fund balances for a specific purpose to the Superintendent and the Business Manager. Assigned fund balance does not lapse at year end. The District has the following assigned fund balances at June 30, 2016:

Kitchen upgrades	$ 90,000
Technology needs	155,000
Building and grounds improvements	307,000
Curriculum enhancement	60,000
Total assigned fund balance	$ 627,000

- Unassigned – unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

As of June 30, 2016, Moran Township School District had not established a policy for its use of unrestricted fund balance amounts; it considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used, but reserves the right to selectively spend unassigned resources first to defer the use of other classified funds.

14. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

15. Estimates

The preparation of the 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.

Note B – Cash Equivalents

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- 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.

- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally charted bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.

- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or Federal agency obligation repurchase agreements.
- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school district in Michigan.
- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district in Michigan.

Balances at June 30, 2016 related to cash equivalents and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Position:	
Governmental activities	$ 2,443,329
Fiduciary Fund:	
Agency Fund	14,078
	$ 2,457,407

Cash Equivalents

Depositories actively used by the District during the year are detailed as follows:

1. First National Bank

Cash equivalents consist of bank public funds checking and savings accounts.

June 30, 2016 balances are detailed as follows:

Cash equivalents	$ 2,457,407

Custodial Credit Risk Related to Cash Equivalents
Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents was $2,457,407, and the bank balance was $2,471,266, of which $250,000 was covered by federal depository insurance, and $2,221,266 was uninsured and uncollateralized.

Investments

As of June 30, 2016, the District had no surplus funds that were classified as investments. The District's policies to minimize investment risk are as follows:

Credit Risk Related to Investments
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The District's investment policy does not specifically address credit risk, but minimizes its credit risk by limiting investments to the types allowed by the State.

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

Concentration of Credit Risk
The District minimizes concentration of credit risk which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The District's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security.

Foreign Currency Risk
The District in not authorized to invest in investments which have this type of risk.

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2015 ad valorem State Education Taxes generated within the Moran Township School District, and paid to the State of Michigan, totaled $866,831.

Moran Township School District is considered "out-of-formula" by the State of Michigan, and therefore does not receive revenue in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in October 2015 and February 2015. They do, however, receive State aid categorical, and MPSERS related payments generating $93,713 in state aid payments to the District of which $17,564 was paid to the District in July and August, 2016 and included in "Due From Other Governmental Units" of the General Fund of the District.

Property taxes for the District are levied July 1 (the tax lien date) by the Township of Moran, and are due 75 days after the levy date. The taxes are then collected by the governmental unit and remitted to the District. The County of Mackinac, through its Delinquent Tax Revolving Fund, advances all delinquent real property taxes at March 1 to the District each year prior to June 30.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district. Per State statute, the District is only eligible to levy a maximum of 16.8734 mills for operating purposes.

As Moran Township School District's electors had previously (May, 2013) approved an operating millage, the 14.8734 mill non-homestead property tax was levied in the District for 2015.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A and Public Act 36, taxable property is now divided into two categories: PRE and NPRE.

A principal residence exemption property (PRE) is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage" nor any additional voted millage for the retirement of debt.

Non-principal residence exemption property (NPRE) is subject to all District levies. However, since Public Act 36, establishing the Michigan Business Tax, was signed into law, Public Acts 37-40 of 2007 now exempt Industrial Personal Property from the 6 mill State Education Tax and up to 18 mills of local school district operating millage (includes property under Industrial Facilities Tax exemptions); and exempt Commercial Personal Property from up to 12 mills of local school district operating millage (exceptions may apply).

Note D – Interfund Receivables/Payables and Transfers

Amounts due from (to) other funds, representing interfund receivables and payables for year-end expenditure allocations not reimbursed at June 30, 2016, are detailed as follows:

	Due From	Due To
Major Fund		
General Fund:		
Special Revenue Fund:		
Food Service Fund	$ 3,997	$ 244
Nonmajor Fund		
Special Revenue Fund:		
Food Service Fund:		
General Fund	244	3,997
Total All Funds	$ 4,241	$ 4,241

Transfers between funds made to subsidize the food service program were as follows:

	Transfers In	Transfers Out
Major Fund		
General Fund:		
Special Revenue Fund:		
Food Service Fund	$ —	$ 21,000
Nonmajor Fund		
Special Revenue Fund:		
Food Service Fund:		
General Fund	21,000	—
Total All Funds	$ 21,000	$ 21,000

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balances July 1, 2015	Additions	Deductions	Balances June 30, 2016
Capital assets not being depreciated:				
Land	$ 79,093	$ -	$ -	$ 79,093
Capital assets being depreciated:				
Land improvements	356,889	$ -	$ -	356,889
Buildings and improvements	2,371,567	-	-	2,371,567
Furniture and equipment	241,192	14,021	-	255,213
Total capital assets being depreciated	2,969,648	$ 14,021	$ -	2,983,669
Less accumulated depreciation for:				
Land improvements	123,739	$ 23,793	$ -	147,532
Buildings and improvements	1,758,457	28,461	-	1,786,918
Furniture and equipment	209,919	3,961	-	213,880
Total accumulated depreciation	2,092,115	$ 56,215	$ -	2,148,330
Total capital assets being depreciated, net	877,533			835,339
Net Capital Assets	$ 956,626			$ 914,432

Depreciation expense for the District was $56,215. The District determined that is was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

Note F – Long-term Debt

Changes in long-term debt for the year ended June 30, 2016 are summarized as follows:

	Debt Outstanding July 1, 2015	Debt Added	Debt Retired	Debt Outstanding June 30, 2016
Early retirement incentive	$ 22,800	$ —	$ —	$ 22,800
Accumulated sick leave	31,798	8,814	3,500	37,112
	$ 54,598	$ 8,814	$ 3,500	59,912

Long-term debt outstanding at June 30, 2016 is comprised of the following:

	Outstanding Balance	Amount Due Within One Year
Other Obligations		
Early retirement incentive	$ 22,800	$ —
Accumulated sick leave	37,112	3,500
	$ 59,912	$ 3,500

Note G – Retirement Plan

Plan Description

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

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

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

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

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

Membership

At September 30, 2015, the System's membership consisted of the following:

Inactive plan members or their beneficiaries currently receiving benefits:	
Regular benefits	184,496
Survivor benefits	16,960
Disability benefits	6,195
Total	**207,651**
Inactive plan members entitled to but not yet receiving benefits:	**17,445**
Active plan members:	
Vested	106,671
Non-vested	104,303
Total	**210,974**
Total plan members	**436,070**

Benefits Provided

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

A DB member or Pension Plus plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. 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.

Pension Reform 2010

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

Pension Reform 2012

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

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

- Basic Plan members; 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

<u>Option 2</u> members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic Plan members, 3.9% for MIP-Fixed, up to 4% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

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

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

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

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus plan described above and a Deferred Contribution (DC) plan that provides a 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period, as reported to ORS, to elect to opt out of the Pension Plus plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus plan. If they elect to opt out of the Pension Plus plan, their participation in the DC plan will be retroactive to their date of hire.

Regular Retirement

The retirement benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation (FAC). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period. For a Member Investment Plan (MIP) member who became a member of MPSERS prior to July 1, 2010, the averaging period is 36 consecutive months. For a Pension Plus member who became a member of MPSERS after June 30, 2010, the averaging period is 60 consecutive months. For a Basic Plan member, this period is the 60 consecutive months yielding the highest total wages. The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012 and is shown below:

Option 1: FAC x total years of service x 1.5%
Option 2: FAC x 30 years of service x 1.5% + FAC x years of service beyond 30 x 1.25%
Option 3: FAC x years of service as of transition date x 1.5% + FAC x years of service after transition date x 1.25%
Option 4: FAC as of transition date x years of service as of transition date x 1.5%

A MIP member who became a member of MPSERS prior to July 1, 2010 may retire at:

- age 46 with 30 or more years of credited service; or
- age 60 with 10 or more years of credited service; or
- age 60 with 5 years of credited service provided the member has worked through his or her 60th birthday and has credited service in each of the five school fiscal years immediately preceding the retirement effective date.

A Pension Plus member who became a member of MPSERS after June 30, 2010 may retire at age 60 with 10 or more years of credited service.

A Basic Plan member may retire at:

- age 55 with 30 or more years of service; or
- age 60 with 10 or more years of service.

There is no mandatory retirement age.

Early Retirement

A member may retire with an early permanently reduced pension:

- after completing at least 15 but less than 30 years of credited service; and
- after attaining age 55; and
- with credited service in each of the 5 school years immediately preceding the pension effective date.

Deferred Retirement

If a member terminates employment before attaining the age qualification, but after accruing 10 or more years of credited service, the member becomes a deferred member and is eligible for a pension at the time the age qualification is attained.

Non-Duty Disability Benefit

A member with 10 or more years of credited service who becomes totally and permanently disabled due to any non-duty related cause and who has not met the age requirement for a regular pension is eligible for a non-duty disability pension computed in the same manner as an age and service pension, upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by two percent for each year retired; first year 100%, next year 102%, etc.).

Duty Disability Benefit

A member who becomes totally and permanently disabled as a result of a duty-related cause, who has not met the age and service requirement for a regular pension, and who is in receipt of weekly workers' compensation is eligible for a duty disability pension computed in the same manner as an age and service pension (but based upon a minimum of 10 years of service) upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by 2% for each year retired; first year 100%, next year 102%, etc.).

Forms of Payment

The election of a pension option is made at the time of application. Once a member has retired, the option choice is irrevocable. The pension effective date is the first of the calendar month following the date the member has satisfied the age and service requirements, has terminated public school employment and has the completed application forms on file with the System for a period of 15 days. A retroactive pension can be paid for no more than 12 calendar months. Thus, delay in filing the application can result in a loss of some retroactive pension benefits. An application may select only one of the following options.

Straight Life Pension – the Straight Life Pension pays the largest level pension a retiree can receive during his or her lifetime and stops with the month of the retiree's death. There are no monthly benefits for a beneficiary. The pension benefit is computed with no beneficiary rights. If the retiree made contributions while an employee and has not received the total accumulated contributions before death, a refund of the balance of the contributions is made to the beneficiary of record. If the retiree did not make any contributions, there will not be payments to any beneficiary.

Survivor Options - Under the Survivor Options, 100% Survivor Pension, 100% Equated, 75% Survivor Pension, 75% Equated, 50% Survivor Pension and 50% Equated, the reduction is an actuarial determination dependent upon the combined life expectancies of a retiree and a beneficiary, and varies from case to case. A beneficiary may only be a spouse, brother, sister, parent or child (including an adopted child) of a retiring member. If the beneficiary predeceases a retiree, the pension will revert to either the Straight Life or Straight Life Equated amount ("pop-up" provision). If, however, a retiree was single at the time of retirement and subsequently married, the retiree can request to nominate a new spouse if they elected the straight life option at retirement. Also, if a retiree was married at the time of retirement and has since been widowed and remarried, the retiree can request to nominate a new spouse as a pension beneficiary as long as they elected a survivor option for the spouse at the time of retirement.

100% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree's death, the same amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

75% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree's death, 75% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

50% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree's death, 50% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

Equated Plan – The Equated Plan may be combined with the Straight Life, 100% Survivor, 75% Survivor, or 50% Survivor pension by any member under age 61, except a disability applicant. The Equated Plan provides a higher pension every month until age 62, at which time the monthly pension is permanently decreased to a lower amount than the Straight Life, 100%, 75%, or 50% Survivor alone would provide.

The intent of the Equated Plan is for the retiree's pension to decrease at age 62 by approximately the same amount as that person's Social Security benefit will provide. The System pension until age 62 should be about the same as the combined System pension and Social Security after age 62.

The projected Social Security pension the retiring member obtains from the Social Security Administration and furnishes to the System is used in the Equated Plan calculation. The actual Social Security pension may vary from the estimate.

NOTE: The reduction in the pension at age 62 pertains to the Equated Plan only and affects only the retiree. A beneficiary under 100% Equated, 75% Equated or 50% Equated will receive the 100%, 75%, or 50% Survivor amount the month following the retiree's death as if the Equated Plan had not been chosen. A beneficiary does not participate in the Equated Plan.

Survivor Benefit

A non-duty survivor pension is available if a Member Investment Plan (MIP) member has 10 years of credited service or, if age 60 or older, with five years of credited service; the date they became a MIP member does not matter. The Basic Plan provides a survivor pension with 15 years of credited service or, if age 60 or older, with 10 years of credited service. An active member may nominate as a survivor beneficiary a spouse, child(ren) (including adopted child(ren)), brother, sister, or parent. If other than the spouse is nominated and a spouse exists, the spouse must waive this benefit. If no beneficiary has been nominated, the beneficiary is automatically the spouse; or, if there is no spouse, unmarried children under age 18 share the benefit equally until age 18. The benefit is computed as a regular pension but reduced in accordance with an Option 2 (100% survivor pension factor). The pension begins the first of the month following the member's death. In the event of death of a deferred member, the System begins payment to the nominated beneficiary at the time the member would have attained the minimum age qualification.

A duty survivor pension is payable if weekly Workers' Compensation is being paid to the eligible beneficiary due to the member's death. A spouse receives the benefit (based on a minimum of 10 years of service credit) reduced in accordance with a 100% survivor pension factor. If there is no spouse, unmarried children under age 18 share the benefit equally until age 18; if there is no spouse or child(ren), a disabled and dependent parent is eligible.

Post-Retirement Adjustments

A retiree who became a Member Investment Plan (MIP) member prior to July 1, 2010, receives an annual post-retirement non-compounded increase of three percent of the initial pension in the October following twelve months of retirement. Basic Plan members do not receive an annual post-retirement increase, but are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions. Pension Plus members do not receive an annual post-retirement increase.

On January 1, 1990, pre-October 1, 1981 retirees received an increase that ranged from 1% to 22% dependent upon the pension effective date. On October 1, 1990, the base pension of all retirees with an effective pension date of January 1, 1987, or earlier was increased to include all prior post-retirement benefits.

On January 1, 1986, all recipients through calendar year 1985 received a permanent 8% increase that established the 1986 base pension. In addition, each October, retirees with a pension effective date of January 1, 1987, or earlier receive a fixed increase equal to 3% of the base pension. Both increases are deducted from the distribution of excess investment income, if any. Beginning in 1983, eligible recipients receive an annual distribution of excess investment income, if any.

Contributions and Funded Status

The majority of the members currently participate on a contributory basis, as described above under "Benefits Provided". Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB) (See Note I). 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 the method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability will be amortized over a 21 year period for the 2015 fiscal year.

Employer contributions to the plans are based on a percentage of covered payroll that has been actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded liability. Member contributions are determined based on date of hire and the plan selected. In addition, the District is invoiced monthly an amount that approximates 7.63% to 10.53% of covered payroll for "MPSERS UAAL Stabilization." This additional contribution is offset by monthly State Aid payments equal to the amounts actually billed by the Office of Retirement Services (ORS). Employer contribution requirements for pension and retiree healthcare, including the MPSERS UAAL Stabilization and one-time prepayment rates, ranged from 20.96% to 25.78% of covered payroll. Plan member contribution rates range from 0.0% to 7.0% of covered payroll.

The District's contributions to MPSERS under all pension plans for the year ended June 30, 2016, inclusive of the MSPERS UAAL Stabilization and one-time prepayment, totaled $160,407.

In May 1996, the Internal Revenue Service issued a private letter ruling allowing the System's members to purchase service credit and repay refunds using tax-deferred (pre-tax) dollars. The program was implemented in fiscal year 1998, and payments began in fiscal year 1999.

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The duration of the contract can range from 1 to 20 years. The amounts are withheld from members' paychecks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2015, there were 13,725 agreements. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2015. The average remaining length of a contract was approximately 5.8 years for 2015. The short-term receivable was $24.9 million and the discounted long-term receivable was $67.5 million at September 30, 2015.

MPSERS Plan Net Pension Liability (in thousands)

Total Pension Liability	$	67,355,988
Plan Fiduciary Net Position		42,382,361
Net Pension Liability	$	24,973,627
Plan Fiduciary Net Position as a Percentage of Total Pension Liability		62.92%
Net Pension Liability as a Percentage of Covered Employee Payroll		296.36%
Total Covered Payroll	$	8,426,755

Proportionate Share of Reporting Unit's Net Pension Liability

June 30, 2016, the District reported a liability of $1,452,581 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. The District's proportion was .00493498% at September 30, 2014, and .00594710% at September 30, 2015.

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

For the year ended June 30, 2016, the District recognized pension expense of $173,530. At June 30, 2016, 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
Difference between expected and actual experience	$ —	$ 4,811
Changes of assumptions	35,766	—
Net difference between projected and actual earnings on pension plan investment earnings	7,414	—
Changes in proportion and differences between District contributions and proportionate share of contributions	188,598	—
District contributions subsequent to the measurement date*	145,007	—
Total	$ 376,785	$ 4,811

*This amount, reported as deferred outflows of resources related to pensions resulting from Reporting Unit contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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
2017	$ 54,832
2018	54,832
2019	52,893
2020	64,410

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

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

Notes:

- 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, 2015 is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.

- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [4.7158 for non-university employers, 1.3923 for university employers].

- Recognition period for assets in years is 5.000.

- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015 are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity Pools	28.0%	5.9%
% Alternative Investment Pools	18.0%	9.2%
International Equity Pools	16.0%	7.2%
Fixed Income Pools	10.5%	0.9%
Real Estate & Infrastructure Pools	10.0%	4.3%
Absolute Return Pools	15.5%	6.0%
Short-term Investment Pools	2.0%	0.0%
Total	**100.0%**	

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine the 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 those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent (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 point higher:

	1% Decrease (Non-Hybrid/Hybrid)* 7.0%/6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0%/7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0%/8.0%
District's proportionate share of the net pension liability	$ 1,872,749	$ 1,452,581	$ 1,098,362

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System September 30, 2015 Comprehensive Annual Financial Report, available here: (www.michigan.gov/documents.orsschools/MPSERS_CAFR_2015_Final_510211_7.pdf)

Payables to the Michigan Public School Employee Retirement System (MPSERS)

Payables to the pension plan totaling $18,515 at June 30, 2016 arise from the normal legally required contributions based on the accrued salaries payable at year-end, expected to be liquidated with expendable available financial resources.

Note H – Other Postemployment Benefits

Plan Description and Employee Contributions

Benefit provisions of the post-employment healthcare plan are established by State statute which may be amended. Retirees have the option of health coverage, which, through 2015, is currently funded on a cash disbursement basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees.

Public Act 300 of 2012 granted all active members of MPSERS 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 December 1, 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 Section 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) account no later than their first pay date after February 1, 2013.

Members who did not make an election before the deadline retain the subsidy benefit and continue making the 3% contribution toward retiree healthcare.

Members who elected to retain the premium subsidy continue to annually contribute 3% of compensation into the healthcare funding account. A member or former member age 60 or older, who made the 3% healthcare contributions but who does not meet the eligibility requirements may request a refund of their contributions.

Under Public Act 300 of 2012, the State no longer offers an insurance premium subsidy in retirement for public school employees who first work on or after September 4, 2012. Instead, all new employees will be placed into the Personal Healthcare Fund where they will have support saving for retirement healthcare costs in the following ways:

- They will be automatically enrolled in a 2% employee contribution into a Section 457 account as of their date of hire, earning them a 2% employer match into a 401(k) account.
- They will receive a credit into a Health Reimbursement Account (HRA) at termination if they have at least 10 years of service at termination. The credit will be $2,000 for participants who are at least 60 years of age at termination or $1,000 for participants who are less than 60 years of age at termination.

Employer contributions

Required contributions for post-employment health care benefits ranged from 6.40% to 6.83% of covered payroll for the fiscal year ended June 30, 2016. The District's required and actual contributions to the Plan for retiree health care benefits for the fiscal years ending June 30, 2016 and 2015 were $33,612 and $14,359, respectively.

Post-employment Plan Status

At September 30, 2015, the actuarial accrued liability for post-employment insurance benefits for the MPSERS as a whole was $14.2 billion. The MPSERS net assets available for these benefits were $3.0 billion leaving an unfunded actuarial accrued liability of $11.2 billion. The funded ratio of actuarial liability was 21.1%; covered payroll totaled $8.2 billion, and unfunded actuarial liability was 136.9% of covered payroll.

Note I – Risk Management and Benefits

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for property loss, errors and omissions, workers' compensation, health benefits, and dental and vision benefits provided to employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

There were no significant reductions in insurance coverage in fiscal 2015-16, and as of year ended June 30, 2016, there were no material pending claims against the District.

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REQUIRED SUPPLEMENTARY INFORMATION

MORAN TOWNSHIP SCHOOL DISTRICT
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2016

	Year Ended June 30, 2015	Year Ended June 30, 2016
District's proportion of the net pension liability	0.00493498%	0.00594710%
District's proportionate share of the net pension liabilty	$ 1,087,004	$ 1,452,581
District's covered-employee payroll	$ 418,318	$ 494,152
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	259.85%	293.95%
Plan fiduciary net position as a percentage of the total pension liability	66.15%	62.92%

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

Note: GASB Statement No 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

See accompanying notes to required supplementary information.

MORAN TOWNSHIP SCHOOL DISTRICT
Required Supplementary Information
Schedule of District Contributions
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2016

	Year Ended June 30, 2015	Year Ended June 30, 2016
Contractually required contribution	$ 150,699	$ 160,407
Contributions in relation to the contractually required contribution	150,699	160,407
Contribution deficiency (excess)	$ -	$ -
District's covered-employee payroll	$ 472,081	$ 544,859
Contributions as a percentage of covered employee payroll	31.92%	29.44%

Note: GASB Statement No 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

See accompanying notes to required supplementary information.

Note A – Net Pension Liability and Contributions

Changes of benefit terms: There were no changes of benefit terms in 2015-16.

Changes of assumptions: There were no changes of benefit assumptions in 2015-16.

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUND

MORAN TOWNSHIP SCHOOL DISTRICT
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2016

	Budget	Actual	Variance
Revenues			
Local sources	$ 12,630	$ 12,600	$ (30)
State sources	750	593	(157)
Federal sources	28,745	28,698	(47)
Total Revenues	42,125	41,891	(234)
Expenditures			
Current:			
Food service	71,410	64,850	6,560
Excess (Deficiency) of Revenues Over Expenditures	(29,285)	(22,959)	6,326
Other Financing Sources			
Transfers in	21,000	21,000	-
Net Change in Fund Balances	(8,285)	(1,959)	6,326
Fund Balances, Beginning of Year	14,934	14,934	-
Fund Balances, End of Year	$ 6,649	$ 12,975	$ 6,326

AGENCY FUND

Student Activities —to account for the collection and disbursements of monies used by the school activity clubs and groups.

MORAN TOWNSHIP SCHOOL DISTRICT
Student Activities Agency Fund
Statement of Changes in Assets and Liabilities
For the year ended June 30, 2016

	Balances July 1, 2015	Additions	Deductions	Balances June 30, 2016
Assets				
Cash equivalents	$ 17,919	$ 12,045	$ 15,886	$ 14,078
Liabilities				
Accounts payable	$ 10	$ -	$ 10	$ -
Due to student groups	17,909	12,045	15,876	14,078
Total Liabilities	$ 17,919	$ 12,045	$ 15,886	$ 14,078

INTERNAL CONTROL AND COMPLIANCE

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

October 3, 2016

The Board of Education
Moran Township School District

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Moran Township School District (the "District"), as of and for the year ended June 30, 2016, 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 3, 2016.

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 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no 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.

Hungerford Nichols

Certified Public Accountants