Beaver Island Community School

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2018

Dennis, Gartland & Niergarth

CONTENTS

Page

MANAGEMENT'S DISCUSSION AND ANALYSIS....i

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS....2

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION....5

STATEMENT OF ACTIVITIES....6

BALANCE SHEET - GOVERNMENTAL FUNDS....7

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS....8

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES....9

STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS....10

NOTES TO FINANCIAL STATEMENTS....11

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND....35

SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY....36

SCHEDULE OF SCHOOL DISTRICT'S PENSION CONTRIBUTIONS....36

SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY....37

SCHEDULE OF SCHOOL DISTRICT'S OPEB CONTRIBUTIONS....37

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 GOVERNMENTAL AUDITING STANDARDS....38

Beaver Island Community School
37895 King's Highway
Beaver Island, MI 49782
231.448.2744 phone 231.448.2919 fax
info@beaverisland.k12.mi.us

Management's Discussion and Analysis

Overview of the Basic Financial Statements

Beaver Island Community School's (the "School") basic financial statements include government-wide statements, fund financial statements and notes to the financial statements. This report also contains required and other supplemental information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements report information on all of the School's non-fiduciary funds. The government-wide statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The Statement of Net Position displays all of the School's assets and liabilities, with the difference reported as net position. All long-term assets and debt obligations are presented.

The Statement of Activities focuses on the gross and net cost of the various functions within the School (instruction, support services, etc…), which are supported by the School's general revenues (property taxes, unrestricted State aid, etc…).

Fund Financial Statements

The fund financial statements report on the government funds, with an emphasis on major funds. Major funds are determined by the level of activity within the various funds. The focus of the fund financial statements is on the sources and uses of funds during the current year.

The fiduciary fund is also presented separately from the governmental funds, due to the fact that these assets do not represent assets of the School. These assets are not presented as part of the government-wide financial statements.

Beaver Island Community School maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and 2016 Refunding Bond Fund, which are considered major funds. Data from the Food Service Fund is presented in the non-major governmental funds column.

Financial Highlights

The overall conditions of all funds remain very strong for the School. All goals related to financial activities have been met in the past year. If current revenue and expenditure patterns can be maintained, the resources for the following year will be available to meet the School's financial needs.

The liabilities and deferred inflows of resources of the School exceeded its assets and deferred outflows of resources at the close of the recent fiscal year by $1.4 million (net position).

The School's total net position has decreased by $64 thousand this fiscal year.

At the end of the current fiscal year, the aggregated fund balance for the School's operational funds was $666,794.

Government-Wide Financial Analysis

Table 1 provides a summary of the School's net position as of June 30, 2018 and 2017:

Governmental Activities
(in millions)

	2018	2017*
Assets		
Current assets	$ 1.08	$ 1.09
Non-current assets	4.18	4.31
Total assets	5.26	5.40
Deferred outflows of resources	.87	.42
Liabilities		
Current liabilities	.62	.57
Non-current liabilities	6.62	5.42
Total liabilities	7.24	5.99
Deferred inflows of resources	.30	.19
Net position		
Invested in capital assets, net of related debt	1.31	1.28
Restricted	.11	.11
Unrestricted (deficit)	(2.83)	(1.75)
Total net position	$ (1.41)	$ (.36)

The School currently reports positive balances in each category of net position, except unrestricted net position which has a deficit balance.

Operations for the School as a whole are presented in the Statement of Activities. The following summary shows the changes in the net position for the fiscal years 2018 and 2017.

Governmental Activities
(in millions)

	2018	2017*
Revenue		
Program revenue		
Charges for services	$ .014	$ .002
Operating grants and contributions	.397	.557
General revenue		
Property taxes	1.610	1.672
State school aid	.159	.159
Other	.015	.031
Total revenue	2.195	2.421
Functions/program expenses		
Instruction	1.270	1.417
Supporting services	.869	.894
Community services and other	.000	.004
Food service	.055	.016
Other	.000	.000
Interest on long-term debt	.065	.049
Total expenses	2.259	2.380
Increase (decrease) in net position	$ (.064)	$ .041

**The School implemented the provisions of GASB 75 during the year ended June 30, 2018. The impact of the statement of net position and expenses for the year ended June 30, 2017 is unknown and, therefore, the statement of net position and expenses for 2018 and 2017 are not comparable.*

As recorded above, the School recorded $2.259 million of expenses. The majority of the School's activities were funded by property taxes, grants and contributions.

The School experienced a decrease in net position of $(0.064) million. In the fund financial statements debit and capital outlay payments represent expenditures of available spendable resources, however in the government wide statements as noted above they are not current expenses. Depreciation is used to ratably expense these costs over the estimated life to be benefited by the School.

Fund Financial Analysis

The June 30, 2018 General Fund balance decreased by $40,848 during the fiscal year. The fund balance of $548,765 is approximately 28% of reported expenditures over the same fiscal year. The School has a goal of maintaining a 15% fund balance.

Capital Assets

At June 30, 2018, the School had $4,182,126 invested in capital assets. The following table summarizes the capital asset activity for the year.

	2018	2017
Capital assets not being depreciated		
Land	$ 92,228	$ 92,228
Capital assets being depreciated		
Building and improvements	5,503,993	5,503,993
Furniture and fixtures	93,406	93,406
Vehicles	17,522	17,522
Equipment	168,239	168,239
Total capital	5,783,160	5,783,160
Less accumulated depreciation	(1,693,262)	(1,564,848)
Total capital assets, net	$ 4,182,126	$ 4,310,540

Long-Term Debt

At June 30, 2018, the School had $3,017,396 in long-term debt. The following table summarizes the long-term debt activity for the year.

	2018	2017
General obligation bonds	$ 2,935,000	$ 3,110,000
Early retirement incentive	30,000	-
Premium on bonds payable	52,396	56,139
Total long-term debt	$ 3,017,396	$ 3,166,139

Economic Factors

For the upcoming school year, the School will receive new Regional Enhancement millage funding. This millage was approved by the voters within the Charlevoix-Emmet ISD boundaries. The School will received an estimated $673.49 per student based on initial taxable value projections.

Financial Contact

The School's financial statements are designed to present users with a general overview of the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Business Office of Beaver Island Community Schools.

DENNIS, GARTLAND & NIERGARTH

Certified Public Accountants
Business Advisors

Thomas E. Gartland, Retired
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA
Shelly A. Ashmore, CPA
James M. Taylor, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Beaver Island Community School

Report on Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School District'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 School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Emphasis of Matter

Accounting Change

As described in Note B to the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*, during the year ended June 30, 2018.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *iv*, budgetary comparison information on page 35, pension contribution schedule on page 36 and OPEB contribution schedule on page 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2018, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

August 31, 2018

Beaver Island Community School

STATEMENT OF NET POSITION

June 30, 2018

	Governmental Activities
ASSETS	
Current assets	
Cash	$ 1,004,754
Investments	628
Due from other governments	62,538
Prepaid expenses	12,485
Total current assets	1,080,405
Capital assets, net of accumulated depreciation	4,182,126
Total assets	5,262,531
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflow of resources for pension obligation	694,535
Deferred outflow of resources for OPEB obligation	54,813
Deferred loss on debt refunding	119,724
Total deferred outflows of resources	869,072
Total assets and deferred outflows of resources	$ 6,131,603
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
LIABILITIES	
Current liabilities	
Accounts payable	$ 5,079
Accrued salaries and related expenses	142,665
Accrued interest	10,400
Unearned revenue	265,454
Current portion of long-term liabilities	198,743
Due to other funds	413
Total current liabilities	622,754
Non-current portion of long-term liabilities	2,818,653
Net pension liability	2,823,923
Net OPEB liability	980,235
Total liabilities	7,245,565
DEFERRED INFLOWS OF RESOURCES	
Deferred inflow of resources for pension obligation	266,699
Deferred inflow of resources for OPEB obligation	33,139
Total deferred inflows of resources	299,838
NET POSITION	
Invested in capital assets, net of related debt	1,314,454
Restricted for	
Debt service	104,836
Food service	2,793
Unrestricted (deficit)	(2,835,883)
Total net position	(1,413,800)
Total liabilities, deferred inflows of resources and net position	$ 6,131,603

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

Beaver Island Community School

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

Functions/Program	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net Revenue (Expense) and Change in Net Position: Governmental Activities
Governmental activities				
Instruction	$ 1,269,872	$ -	$ 224,628	$ (1,045,244)
Supporting services	868,911	525	160,512	(707,874)
Community services	201	-	-	(201)
Food service	54,822	13,248	12,249	(29,325)
Other	520	-	-	(520)
Interest on long-term debt	65,317	-	-	(65,317)
Total governmental activities	$ 2,259,643	$ 13,773	$ 397,389	(1,848,481)
General purpose revenues				
Property taxes				
Levied for general purposes				1,378,344
Levied for debt service				231,566
State school aid - unrestricted				159,374
Unrestricted investment earnings				1,727
Other				13,364
Total general purpose revenues				1,784,375
Change in net position				(64,106)
Net position, beginning of year, *as restated*				(1,349,694)
Net position, end of year				$ (1,413,800)

Beaver Island Community School

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018

	Major Funds		Non-Major Fund	
	General Fund	2016 Refunding Bond Fund	Food Service Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 887,463	$ 115,236	$ 2,055	$ 1,004,754
Inventories	-	-	628	628
Due from other governments	62,393	-	145	62,538
Prepaid expenditures	12,485	-	-	12,485
Total assets	$ 962,341	$ 115,236	$ 2,828	$ 1,080,405
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 5,044	$ -	$ 35	$ 5,079
Accrued salaries and related expenditures	142,665	-	-	142,665
Due to other funds	413	-	-	413
Unearned revenues	265,454	-	-	265,454
Total liabilities	413,576	-	35	413,611
FUND BALANCES				
Nonspendable	12,485	-	628	13,113
Restricted:				
Debt service	-	115,236	-	115,236
Food service	-	-	2,165	2,165
Building and land improvements	86,000	-	-	86,000
Potential employee leave	26,000	-	-	26,000
Assigned	123,462	-	-	123,462
Unassigned	300,818	-	-	300,818
Total fund balances	548,765	115,236	2,793	666,794
Total liabilities and fund balances	$ 962,341	$ 115,236	$ 2,828	

Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Position

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 the assets is $5,875,388 and the accumulated depreciation is $1,693,262.	4,182,126
Deferred outflows of resources are not a financial resource and, therefore, are not reported as an asset in governmental funds. Deferred outflows of resources at year-end consisted of:	
Pension obligation	694,535
OPEB obligation	54,813
Deferred loss on refunding	119,724
Long-term liabilities, including bonds payable, 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 consisted of:	
Bonds payable	(2,935,000)
Early retirement incentive	(30,000)
Premium on bonds payable	(52,396)
Accrued interest payable	(10,400)
Net pension liability	(2,823,923)
Net OPEB liability	(980,235)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported as a liability in governmental funds. Deferred inflow of resources at year end consisted of:	
Pension obligation	(266,699)
OPEB obligation	(33,139)
Total net position - governmental activities	$ (1,413,800)

Beaver Island Community School

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2018

	Major Funds		Non-Major Fund	
	General Fund	2016 Refunding Bond Fund	Food Service Fund	Total Governmental Funds
Revenues				
Local sources				
Property taxes	$ 1,378,344	$ 231,566	$ -	$ 1,609,910
Charges for services	-	-	13,248	13,248
Interest	1,405	319	2	1,726
Other local revenue	174,402	-	-	174,402
State sources	358,840	-	907	359,747
Federal sources	25,162	-	11,342	36,504
Total revenues	1,938,153	231,885	25,499	2,195,537
Expenditures				
Instruction	1,133,227	-	-	1,133,227
Supporting services	811,542	-	-	811,542
Community services	201	-	-	201
Food service	-	-	54,822	54,822
Debt service				
Principal	-	175,000	-	175,000
Interest	-	65,900	-	65,900
Other	-	520	-	520
Capital outlays	4,351	-	-	4,351
Total expenditures	1,949,321	241,420	54,822	2,245,563
REVENUES UNDER EXPENDITURES	(11,168)	(9,535)	(29,323)	(50,026)
Other financing sources (uses)				
Operating transfers in	-	-	29,680	29,680
Operating transfers out	(29,680)	-	-	(29,680)
Total other financing sources	(29,680)	-	29,680	-
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(40,848)	(9,535)	357	(50,026)
Fund balance, beginning of year	589,613	124,771	2,436	716,820
Fund balance, end of year	$ 548,765	$ 115,236	$ 2,793	$ 666,794

Beaver Island Community School

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

Total Net Change in Fund Balance - Governmental Funds		$ (50,026)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		(128,414)
Change in deferred outflows of resources for:		
Pension obligation	405,137	
OPEB obligation	10,073	
Total		415,210
Amortization of deferred loss on refunding		(8,552)
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.		175,000
Early retirement incentive payments are an expenditure in the governmental funds, but they reduce long-term liabilities in the statement of net position and do not effect the statement of activities.		
Issuance of early retirement incentive	(45,000)	
Payment of early retirement incentive	15,000	
Decrease in early retirement incentive		(30,000)
Amortization of bond premium		3,743
Accrued interest expense on long-term debt is reported in the district-wide statement of activities, but does not require the use of current financial resources. Therefore, accrued interest expense is not reported as an expenditure in government funds.		583
Increase in net pension liability		(386,815)
Decrease in net OPEB liability		53,696
Change in deferred inflows of resources for:		
Pension obligation		(75,392)
OPEB obligation		(33,139)
Changes in Net Position of Governmental Activities		$ (64,106)

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

Beaver Island Community School

STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS

June 30, 2018

		Student Activity Fund
ASSETS		
Cash and cash equivalents	$	38,642
Due from other funds		413
Total assets	$	39,055
LIABILITIES		
Due to student groups	$	39,055

Beaver Island Community School

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Beaver Island Community School (the "School District") operates under a Board-Superintendent form of government and provides education services to Beaver Island residents. The accounting policies of the School District conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units.

The accounting and reporting framework and the more significant accounting principles and practices of Beaver Island Community School are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2018.

The Financial Reporting Entity

Beaver Island Community School is a special purpose government and considered to be a primary government because it has separately elected governing body, is legally separate and is fiscally independent of other state and local governments. The financial reporting entity of Beaver Island Community School includes the School District as the primary government and its component units; i.e., legally separate organizations for which the primary government is financially accountable and any other organizations which management has determined, based on the nature and significance of their relationship with the School District, must be included to prevent the School District's financial statements from being misleading. Based on criteria established in Governmental Accounting Standards Board ("GASB") Statement No. 61, management has not identified any component units. Student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

District-Wide and Fund Financial Statements

District-Wide Financial Statements

The statement of net position and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and School District general revenues.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; and (2) operating grants and contributions which finance annual operating activities including restricted investment income. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the District-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. 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 in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

Fund Types and Major Funds

Activities in Major Funds

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

The *2016 Refunding Bonds Fund* accounts for principal and interest payments on the refunding bonds used to refinance the general obligation bonds.

Other Governmental Funds

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted or Board committed to expenditures for special purposes. The Food Service Fund is accounted for as a Special Revenue Fund.

Fiduciary Funds

The *Agency Fund* accounts for assets held by the School District as an agent for individuals, private organizations, other governments or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Student Activity Fund is an Agency Fund.

Cash and Cash Equivalents

The School District's reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 3 to 50 years. The School District generally capitalizes assets with a cost of $5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	20-50	years
Furniture and other equipment	3-7	years
Vehicles	7	years

Long-Term Debt and Bond Discounts/Premiums

In the district-wide financial statements, outstanding debt is reported as a liability. Bond discounts or premiums and gains or losses on bond refundings are capitalized and amortized over the terms of the respective bonds using the straight-line method, which approximates the effective interest method. Bond issuance costs are expensed as incurred.

In the fund financial statements, bond premiums and discounts, as well as bond issuance costs are recognized during the period in which the bonds were issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors or contributors, or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the School Board through approval of resolutions. Assigned fund balances is a limitation imposed by the Superintendent as a designee of the School Board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed or assigned to those purposes.

When both restricted and unrestricted fund balances are available for use, it is the School District's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are 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 can be used.

It is the School District's policy to maintain a minimum fund balance of at least 15% of the General Fund's annual operating expenditures.

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Isolated District, 21st Century, Special Education Grants, Vocational Education Grants and School Lunch Programs, which are reported as operating grants and contributions.

Allocation of Expenses

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

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 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.

Post-Employment Benefits Other than Pensions

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

Use of Estimates in the Preparation of Financial Statements

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

Subsequent Events

The School District has evaluated events and transactions for potential recognition and disclosure through August 31, 2018, the date the financial statements were available to be issued.

NOTE B - ACCOUNTING CHANGES

In June 2015, the Governmental Accounting Standards Board issued Statement No. 75 (“GASB 75”), *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*, an amendment of GASB Statement No. 45. GASB 75 improves accounting and financial reporting by state and local governments for post-employment benefits other than pensions. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB 75 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity and creating additional transparency.

GASB 75 requires employers to report net OPEB benefits as a liability in the statement of net position. GASB 75 requires immediate recognition of the OPEB expense, including annual service cost and interest, and the effect of changes in benefit terms on the net OPEB liability. Cost-sharing employers are required to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. GASB 75 also requires expanded note disclosures and required supplementary information covering the past 10 years for the net OPEB liability.

The School District implemented GASB 75 during the year by retroactive restatement of June 30, 2017 net position, as follows:

Net position at June 30, 2017, *as originally stated*	$ (360,503)
Record net OPEB liability at June 30, 2017	(989,191)
Net position at June 30, 2017, *as restated*	$ (1,349,694)

NOTE C - BUDGETARY POLICY AND PRACTICE

The School District has adopted these procedures in establishing the budgets as reflected in the financial statements.

1. As early as possible in the preceding fiscal year (generally in the spring), the Superintendent formulates preliminary budgets for the coming year, which are submitted to the Board of Education for their review.
2. A public hearing is held prior to June 30 on the proposed budgets to obtain taxpayer comments.
3. The Board of Education reviews the proposed budget and then in June adopts a formal resolution approving the needed appropriations for the coming operating year.
4. All transfers of budget amounts and any amendments to the formal Appropriation Act are approved by the Board of Education.
5. It is the Superintendent's responsibility to supervise and monitor the budget process. This is done by reviewing the monthly financial data and reporting and recommending any needed amendments to the Board of Education.
6. The budget is adopted on a basis consistent with generally accepted accounting principles.
7. The budgets presented in these financial statements are as originally adopted and as formally amended by the Board of Education.
8. All annual appropriations lapse at fiscal year-end.

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2018, the School District was in compliance with the Act.

NOTE D - CASH AND EQUIVALENTS

At June 30, 2018, the School District's cash and equivalents include the following:

	Cash and Equivalents
Bank deposits	$ 1,043,346
Cash on hand	50
	$ 1,043,396

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2018, the carrying amount of the School District's deposits for both governmental activities and fiduciary funds was $1,043,346 and the bank balance was $1,058,757. As of June 30, 2018, $768,271 of the bank balance was exposed to custodial risk because it was uninsured and uncollateralized.

NOTE E - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE

Property Taxes Receivable, Unearned Revenue and Property Tax Calendar

Property taxes are levied, billed and become a lien on property as of December 1 on the State taxable valuation of property in the School District as of the preceding December 31. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the counties and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred inflows of resources. In the district-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, $15.791 per $1,000 of equalized non-principal residence property value in the School District of $87 million and $3.791 per $1,000 of commercial personal property value in the School District of $257 thousand was levied for general operating purposes. For debt service purposes, $2 per $1,000 of equalized principal, non-principal residence property and commercial personal property value in the School District of $115.0 million was levied.

Intergovernmental Receivables and Unearned Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and deferred inflows - revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Unearned revenue in the government-wide and the fund financial statements consist of categorical and other grant monies received but not yet earned at year-end.

Amounts due from other governments at June 30, 2018 are as follows:

Due from State of Michigan - State Aid	$ 62,538

Unearned revenue for the year ended June 30, 2018 is comprised of the following:

Vocational Education	$ 265,454

NOTE F - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated				
Land	$ 92,228	$ -	$ -	$ 92,228
Capital assets being depreciated				
Buildings and improvements	5,503,993	-	-	5,503,993
Furniture and fixtures	93,406	-	-	93,406
Vehicles	17,522	-	-	17,522
Equipment	168,239	-	-	168,239
Total capital assets being depreciated	5,783,160	-	-	5,783,160
Less accumulated depreciation	(1,564,848)	(128,414)	-	(1,693,262)
Total capital assets, net	$ 4,310,540	$ (128,414)	$ -	$ 4,182,126

Depreciation expense was charged to the function in the statement of activities, as follows:

Instruction	$ 110,686
Support services	17,728
Total depreciation expense	$ 128,414

NOTE G - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Receivables and Payables

Outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

Fund	Interfund Receivable	Interfund Payable
Major Governmental Fund		
General Fund	$ -	$ 413
Agency Fund	413	-
	$ 413	$ 413

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The district-wide statement of activities eliminates transfers as reported within the governmental activities column.

The following schedule reports transfers and payments within the reporting entity:

Fund	Transfers In	Transfers Out
Major Governmental Funds		
General Fund	$ -	$ 29,680
Non-Major Governmental Funds		
Food Service Fund	29,680	-
	$ 29,680	$ 29,680

NOTE H - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2018 were as follows:

	Beginning Balance	New Debt	Payments/ Accretion	Ending Balance	Current Portion
General obligation bonds	$ 3,110,000	$ -	$ (175,000)	$ 2,935,000	$ 180,000
Early retirement incentive	-	45,000	(15,000)	30,000	15,000
Premium on bonds payable	56,139	-	(3,743)	52,396	3,743
Total long-term liabilities	$ 3,166,139	$ 45,000	$ (193,743)	$ 3,017,396	$ 198,743

At June 30, 2018, the School District's long-term debt consisted of the following:

2016 Refunding Bonds due in annual installments through May 1, 2032; interest at 2.0% - 2.4% due semi-annually.	$ 2,935,000
Early retirement incentive payable in annual installments of $15,000.	30,000
Unamortized bond premium	52,396
Total long-term debt	$ 3,017,396

Total annual requirements to amortize bonds outstanding as of June 30, 2018 are as follows:

Years Ending June 30,	Principal	Interest	Total
2019	$ 180,000	$ 62,400	$ 242,400
2020	185,000	58,800	243,800
2021	190,000	55,100	245,100
2022	195,000	51,300	246,300
2023	200,000	47,400	247,400
2024-2028	1,055,000	175,385	1,230,385
2029-2032	930,000	55,715	985,715
	$ 2,935,000	$ 506,100	$ 3,441,100

Interest expense for the year ended June 30, 2018 was $65,317 and interest paid was $65,900.

NOTE I - RISK MANAGEMENT

The School District carries commercial insurance for risks of loss, including property and employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, disability insurance and errors and omissions coverages. SET-SEG is a public entity risk pool currently operating as a common risk management and workers' compensation insurance program for various school districts throughout the State. The School District pays an annual premium for its workers' compensation insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of $500,000 for each insured event. Although the School District could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal. Any refunds from SET-SEG are deposited in the School District's General Fund.

NOTE J - PENSION PLAN

Plan Description

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

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The system is administered by the Office of Retirement Services ("ORS") within the Michigan Department of Technology, Management 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/orsschools.

Benefits Provided

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

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

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.

There is no mandatory retirement age.

Defined Contribution Plan

Employer contributions to the Plan are dependent on the plan elected by the participant.

Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of September 30, 2017 will be amortized over a 20 year period for the 2017 fiscal year.

The schedule below summarizes pension contribution rates in effect for the Plan's fiscal year September 30, 2017:

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0-4.0%	19.03%
Member Investment Plan	3.0-7.0%	19.03%
Pension Plus	3.0-6.4%	18.40%
Defined Contribution	0.0%	15.27%

Required contributions to the pension plan from the School District were $255,597 for the year ended September 30, 2017.

The School District's contributions to the MPSERS Defined Contribution Plan were $19,833, for the year ended June 30, 2018, which is equal to the pension expense recognized by the School District for the year.

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

At June 30, 2018, the School District reported a liability of $2,823,923 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2016. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employees during the measurement period. At September 30, 2017, the School District's proportion was 0.00010897%, which was a decrease of 0.00001129% from its proportion measured as of September 30, 2016.

For the year ended June 30, 2018, the School District recognized pension expense of $294,287. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 24,542	$ 13,856
Changes of assumptions	309,383	-
Net difference between projected and actual earnings on pension plan investments	-	135,002
Changes in proportion and differences between School District contributions and proportionate share of contributions	240,125	117,841
School District contributions subsequent to the measurement date	120,485	-
Total	$ 694,535	$ 266,699

From the above table, $120,485 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

Year Ended September 30,	Amount
2018	$ 53,030
2019	119,892
2020	109,437
2021	24,992
	$ 307,351

Actuarial Assumptions

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

Additional information as of the latest actual valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2017
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
MIP and Basic Plans (Non-Hybrid):	7.5%
Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5-12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

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, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.5188 for non-university employers.
- Recognition period for assets is 5 years.
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by 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, 2017, are summarized in the following table:

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

*Long-term rate of return does not include 2.3% inflation.

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 13.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension 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 School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for the Hybrid Plan), as well as what the School 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) (6.5% / 6.0%)	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) (7.5% / 7.0%)	1% Increase (Non-Hybrid-Hybrid) (8.5% / 8.0%)
$3,678,632	$2,823,923	$2,104,312

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS Comprehensive Annual Financial Report ("CAFR") available on the ORS website at: www.michigan.gov/orsschools.

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

The School District reported $20,238 and $5,033 payable to the plan at June 30, 2018 for legally required defined benefit and defined contribution plan contributions, respectively.

NOTE K - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

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

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

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

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

Benefits Provided

Benefit provisions of the post-employment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Post-Employment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

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

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

Contributions

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

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2017 fiscal year.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2017.

OPEB Contribution Rates

Benefit Structure	Member	Employer
Premium Subsidy	3.00%	5.91%
Personal Healthcare Fund (PHF)	0.00%	5.69%

Required contributions to the OPEB plan from the School District were $86,179 for the year ended September 30, 2017.

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

At June 30, 2018, the School District reported a liability of $980,235 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 30, 2016. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the systems during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was 0.00011069%, which equaled its proportion measured as of October 1, 2016.

For the year ended June 30, 2018, the School District recognized pension expense of $65,576. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 10,437
Net difference between projected and actual earnings on OPEB plan investments	-	22,702
Changes in proportion and differences between School District contributions and proportionate share of contributions	47	-
School District contributions subsequent to the measurement date	54,766	-
Total	$ 54,813	$ 33,139

From the above table, $54,766 contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended September 30,	Amount
2018	$ 7,998
2019	7,998
2020	7,998
2021	7,998
2022	1,100
Total	$ 33,092

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, 2016
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	7.5%
Projected Salary Increases:	3.5-12.3%, including wage inflation at 3.5%
Healthcare Cost Trend Rate:	7.5% Year 1 graded to 3.5% Year 12
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Other Assumptions

Opt Out Assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
Survivor Coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
Coverage Election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

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 OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.4744 for non-university employers.
- Recognition period for assets in years is 5.0.
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/orsschools).

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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 OPEB plan's target asset allocation as of September 30, 2017, are summarized in the following table:

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

**Long-term rate of return does not include 2.3% inflation.*

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 11.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

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

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

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

1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
$ 1,148,139	$ 980,235	$ 837,738

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

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

1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
$ 830,127	$ 980,235	$ 1,150,672

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2017 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan

The School District reported $5,740 payable to the Plan at June 30, 2018 for the OPEB liability.

NOTE L - COMMITMENTS AND CONTINGENCIES

Federal and State Grants

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Beaver Island Education Association. The Board of Education and the Beaver Island Education Association have a contract through August 31, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

Beaver Island Community School

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variances - Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final Budget	Final Budget To Actual
Revenues					
Local sources	$ 1,437,368	$ 1,404,085	$ 1,400,604	$ (33,283)	$ (3,481)
State sources	320,824	358,840	358,840	38,016	-
Federal sources	31,666	29,685	25,162	(1,981)	(4,523)
Received from ISD	260,890	158,503	153,547	(102,387)	(4,956)
Total revenues	2,050,748	1,951,113	1,938,153	(99,635)	(12,960)
Expenditures					
Education					
Instruction	1,277,053	1,155,508	1,133,227	121,545	22,281
Supporting services	868,079	844,031	815,893	24,048	28,138
Community services	12,578	400	201	12,178	199
Total expenditures	2,157,710	1,999,939	1,949,321	157,771	50,618
REVENUES OVER (UNDER) EXPENDITURES	(106,962)	(48,826)	(11,168)	58,136	37,658
Other financing uses					
Operating transfers out	(10,000)	(32,750)	(29,680)	(22,750)	3,070
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(116,962)	(81,576)	(40,848)	35,386	40,728
Fund balance, beginning of year	589,613	589,613	589,613	-	-
Fund balance, end of year	$ 472,651	$ 508,037	$ 548,765	$ 35,386	$ 40,728

Beaver Island Community School

SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Michigan Public School Employees Retirement Plan

	9/30/2017	9/30/2016	9/30/2015	9/30/2014
School District's proportion of collective net pension liability	0.00010897 %	0.00976829 %	0.00954569 %	0.01090000 %
School District's proportionate share of net pension liability	$ 2,823,923	$ 2,437,108	$ 2,331,537	$ 2,401,241
School District's covered-employee payroll	978,513	855,271	792,246	932,670
School District's proportionate share of net pension liability as a percentage of covered-employee payroll	288.59 %	284.95 %	294.29 %	257.46 %
Plan fiduciary net position as a percentage of total pension liability	64.21 %	63.27 %	63.17 %	66.20 %

SCHEDULE OF SCHOOL DISTRICT'S PENSION CONTRIBUTIONS

Michigan Public School Employees Retirement Plan

	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Statutorily required employer contributions	$ 146,812	$ 176,456	$ 158,763	$ 188,872
School District contributions made to the Plan	146,812	176,456	158,763	188,872
Contributions deficiency (excess)	$ -	$ -	$ -	$ -
School District's covered-employee payroll	$ 858,634	$ 971,678	$ 817,450	$ 838,573
Contributions as a percentage of covered-employee payroll	17.10 %	18.16 %	19.42 %	22.52 %

Change of benefit terms: There were no changes of benefit terms in 2017.

Change of assumptions: There were no changes of benefit assumptions in 2017.

Beaver Island Community School

SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

Michigan Public School Employees Retirement Plan

	9/30/2017
School District's proportion of collective net OPEB liability	0.00011069 %
School District's proportionate share of net OPEB liability	$ 980,235
School District's covered-employee payroll (OPEB)	978,513
School District's proportionate share of net OPEB liability as a percentage of covered-employee payroll	100.18 %
Plan fiduciary net position as a percentage of total OPEB liability	36.39 %

SCHEDULE OF SCHOOL DISTRICT'S OPEB CONTRIBUTIONS

Michigan Public School Employees Retirement Plan

	6/30/2018
Statutorily required OPEB contributions	$ 86,179
OPEB contributions in relation to statutorily required contributions	86,179
Contributions deficiency (excess)	$ -
School District's covered-employee payroll (OPEB)	$ 858,634
OPEB contributions as a percentage of covered-employee payroll	10.04 %

Change of benefit terms: There were no changes of benefit terms in 2017.

Change of assumptions: There were no changes of benefit assumptions in 2017.

DENNIS, GARTLAND & NIERGARTH

Certified Public Accountants
Business Advisors

Thomas E. Gartland, Retired
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA
Shelly A. Ashmore, CPA
James M. Taylor, CPA

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

To the Board of Education
Beaver Island Community School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of ***Beaver Island Community School*** (the "School District") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated August 31, 2018.

Internal Control Over Financial Reporting

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

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

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

415 Munson Avenue | P.O. Box 947 | Traverse City, Michigan 49685-0947
231-946-1722 ph | 231-946-2762 fax | www.dgncpa.com

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School 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 School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dennis, Gartland & Niergarth

August 31, 2018