

MACKINAC ISLAND
PUBLIC SCHOOL



Year Ended
June 30, 2017

Financial
Statements

MACKINAC ISLAND PUBLIC SCHOOL

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INDEPENDENT AUDITORS' REPORT

October 27, 2017

Board of Education
Mackinac Island Public School
Mackinac Island, Michigan**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Mackinac Island Public School* (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2017, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund and Food Service Special Revenue Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Information

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

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 information is 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 27, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provision 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Lehmann Lobson LLC". The signature is written in black ink and is centered on the page.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

MACKINAC ISLAND PUBLIC SCHOOL

Management's Discussion and Analysis

As management of Mackinac Island Public School (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, 2017.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$910,699 (net position). The District ended the year with an unrestricted deficit of \$843,877.
- The District's total net position increased by \$339,966.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,091,005, of which approximately \$866,000 or 79% is available for spending at the District's discretion (unassigned fund balance). The governmental fund activity for the year ended June 30, 2017 resulted in a net decrease in fund balance of approximately \$183,000.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was approximately \$866,000, or 42% of total General Fund expenditures and transfers out.

Overview of the Financial Statements

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

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

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

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

Both of the district-wide financial statements present functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, supporting services, and food service. The District has no business-type activities as of and for the year ended June 30, 2017.

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

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

MACKINAC ISLAND PUBLIC SCHOOL

Management's Discussion and Analysis

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

The District maintains four individual governmental funds which are considered to be major funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Food Service Special Revenue Fund, 2010 General Obligation Refunding Bonds Debt Service Fund, and Capital Projects Fund.

The District adopts an annual appropriated budget for its General Fund and Food Service Special Revenue Fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with this budget.

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management's discussion and analysis and the schedules for the MPERS pension plan immediately following the notes to the financial statements. The combining and individual fund statements referred to earlier are presented immediately following the MPERS required supplementary information.

MACKINAC ISLAND PUBLIC SCHOOL

Management's Discussion and Analysis

District-Wide Financial Analysis

As mentioned previously, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$948,002 at the close of the most recent fiscal year.

	Net Position	
	Governmental Activities	
	2017	2016
Assets		
Current and other assets	\$ 1,275,287	\$ 1,421,652
Capital assets, net	2,061,011	1,762,750
Total assets	3,336,298	3,184,402
Deferred outflows of resources		
Deferred pension amounts	407,822	235,260
Liabilities		
Current and other liabilities	2,366,844	2,179,683
Long-term liabilities	409,675	599,538
Total liabilities	2,776,519	2,779,221
Deferred inflows of resources		
Deferred pension amounts	56,902	69,708
Net position:		
Net investment in capital assets	1,661,011	1,172,750
Restricted	93,565	96,585
Unrestricted (deficit)	(843,877)	(698,602)
Total net position	\$ 910,699	\$ 570,733

The District's net position includes, in part, its investment in capital assets (e.g. buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted component of net position consists of amounts that have external restrictions related to how they may be spent. These restrictions are for debt service and the food service program.

The remaining amount of net position, a deficit of approximately \$806,000 represents the accumulated results of the current and all past years' operations. The operating results of the General Fund will also have a significant impact on the change in unrestricted position from year to year.

MACKINAC ISLAND PUBLIC SCHOOL

Management's Discussion and Analysis

	Change in Net Position	
	Governmental Activities	
	2017	2016
Program revenues:		
Charges for services	\$ 10,682	\$ 10,199
Operating grants and contributions	102,340	99,143
Total program revenues	113,022	109,342
General revenues:		
Property taxes	1,639,047	1,651,163
Unrestricted state aid	283,506	247,723
Insurance proceeds	33,325	-
Unrestricted investment earnings	20,552	14,608
Total general revenues	1,976,430	1,913,494
Total revenues	2,089,452	2,022,836
Expenses:		
Instruction	984,487	1,017,945
Supporting services	636,688	630,933
Food services	58,963	56,726
Interest on long-term debt	19,193	26,244
Unallocated depreciation	50,155	50,155
Total expenses	1,749,486	1,782,003
Change in net position	339,966	240,833
Net position, beginning of year	570,733	329,900
Net position, end of year	\$ 910,699	\$ 570,733

Of the District's total revenues available to operate the District, approximately \$11,000, or 0.5% was generated from fees charged to those who benefited from the programs. Approximately \$102,000, or 4.8%, was earned from other governments or organizations that subsidize certain programs with grants and other directed types of funding.

Local property taxes, in the amount of approximately \$1,639,000, represented 78.4% of the revenues of the governmental activities. The property tax revenue represents approximately 7.73 mills on non-homestead property and for the debt service approximately 1.00 mills on all property. The unrestricted state aid accounted for approximately \$284,000, or 13.5% of the revenue available. This revenue is determined by a formula that incorporates pupil head count, the annual per pupil allowance and the non-homestead property taxable value of the District. Approximately \$33,000 was received from an insurance settlement related to damage to the boiler during the year ended June 30, 2017.

Being in the business of educating children, the largest expenses were incurred in instruction, which accounted for approximately \$984,000 or 56.3% of total expenses. Support services amounted to approximately \$637,000 or 36.4% of total expenses, which includes such items as administration, transportation, maintenance and a variety of similar services that support the District's mission of educating children.

MACKINAC ISLAND PUBLIC SCHOOL

Management's Discussion and Analysis

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

As previously mentioned, the District's governmental funds reported combined ending fund balances of approximately \$1,091,000, a decrease of approximately \$183,000 in comparison with the prior year. The District had \$91,135 restricted for debt service and \$3,475 restricted for the food service program. The decrease in fund balance is attributable mainly to the District's General Fund transfer of approximately \$298,000 to the Capital Projects Fund for the purpose of construction of an employee housing duplex.

The General Fund is the principal operating fund of the District. At the end of the current fiscal year, total fund balance, all unassigned, was approximately \$1 million. As a measure of the General Fund's liquidity, it may be useful to compare fund balance to total fund expenditures. Total unassigned fund balance represents approximately 48.8% of current fiscal year General Fund expenditures and transfers out.

General Fund Budgetary Highlights

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

The following were the differences between the final amended budget and actual results:

- Local sources of revenue were \$1,533,633 rather than the \$1,510,938 final budgeted amount attributable mainly to an underestimate of tax levy amounts budgeted to the General Fund as opposed to the Debt Service Fund.
- State sources of revenue and federal sources of revenue agreed to the final budget in the amount of \$280,295 and \$40,464, respectively.
- Interdistrict sources were \$8,902 which agreed to the final amended budget. The change from the original to the final amended budget resulted from the elimination of CPE millage which will not be recognized until fiscal 2018.
- Instructional costs were \$1,006,640 rather than the \$1,056,918 final budget amount primarily due to lower than expected high school and added needs costs.
- Support services were \$696,918 rather than the \$758,401 final budget amount. This difference resulted primarily from lower than expected costs related to instruction staff services, general administration and technology.
- Transfers out in the General Fund related to funds transferred to the Capital Projects Fund for purposes of constructing an employee housing duplex in the amount of \$297,648 and the Food Service Fund in the amount of \$39,668 totaled less than the budgeted amount of \$409,600 mainly attributable to the duplex not being completed by fiscal year end. The increase from the original to the final budget resulted from an increase the expected cost related

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2017, amounted to \$2,061,011 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, building and improvement, and furniture and equipment. The land on which the school is built is owned by the City of Mackinac Island. The districts capital asset additions included the purchase of tablets, purchase and installation of gymnasium lighting, boiler improvements, and construction in progress of the employee housing duplex. Additional information on capital assets can be found in the notes to the financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

Management's Discussion and Analysis

	Capital Assets (net of depreciation)	
	2017	2016
Land	\$ 45,360	\$ 45,360
Construction in progress	297,648	-
Buildings and improvements	1,653,576	1,655,518
Furniture and equipment	64,427	61,872
Total capital assets, net	<u>\$ 2,061,011</u>	<u>\$ 1,762,750</u>

Long-Term Debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$400,000, of which \$200,000 is due within one year. Other long-term liabilities consist of compensated absences in the amount of \$9,675. Additional information on long-term debt can be found in the notes to the financial statements.

Economic Factors and Next Year's Budget and Rates

- General Fund revenues are anticipated to increase approximately \$100,000 attributable to CTE funding, increases in property values and rental income to be earned on the duplex.
- Expenses are anticipated to increase as additional CTE costs are incurred and additional transfers are required to complete the employee housing duplex.
- The District anticipates incurring additional costs in the amount of approximately \$100,000 to complete the employee housing duplex.

The District considered these factors in preparing the District's budget for the 2017-2018 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, may be addressed to the Superintendent, Mackinac Island Public School, Mackinac Island, Michigan.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

MACKINAC ISLAND PUBLIC SCHOOL

Statement of Net Position

Governmental Activities

June 30, 2017

Assets	
Cash and cash equivalents	\$ 1,167,095
Receivables	108,192
Capital assets:	
Capital assets not being depreciated	343,008
Capital assets being depreciated	<u>1,718,003</u>
Total assets	<u>3,336,298</u>
Deferred outflows of resources	
Deferred pension amounts	<u>407,822</u>
Liabilities	
Accounts payable and accrued liabilities	185,327
Long-term liabilities:	
Due within one year	200,000
Due in more than one year	209,675
Net pension liability	<u>2,181,517</u>
Total liabilities	<u>2,776,519</u>
Deferred inflows of resources	
Deferred pension amounts	<u>56,902</u>
Net position	
Net investment in capital assets	1,661,011
Restricted for:	
Food service	3,475
Debt service	90,090
Unrestricted deficit	<u>(843,877)</u>
Total net position	<u>\$ 910,699</u>

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

MACKINAC ISLAND PUBLIC SCHOOL

Statement of Activities

For the Year Ended June 30, 2017

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenues
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 984,487	\$ -	\$ 49,366	\$ (935,121)
Supporting services	636,688	-	43,538	(593,150)
Food services	58,963	10,682	9,436	(38,845)
Interest on long-term debt	19,193	-	-	(19,193)
Unallocated depreciation	50,155	-	-	(50,155)
Total governmental activities	1,749,486	10,682	102,340	(1,636,464)
General revenues:				
Property taxes - operations				1,438,087
Property taxes - debt service				200,960
Unrestricted state aid				283,506
Insurance proceeds				33,325
Unrestricted investment earnings				20,552
Total general revenues				1,976,430
Change in net position				339,966
Net position, beginning of year				570,733
Net position, end of year				\$ 910,699

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

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FUND FINANCIAL STATEMENTS

MACKINAC ISLAND PUBLIC SCHOOL

Balance Sheet

Governmental Funds

June 30, 2017

	General Fund	Food Service Special Revenue Fund	2010 General Obligation Refunding Bonds Debt Service Fund
Assets			
Cash and cash equivalents	\$ 1,075,960	\$ -	\$ 91,135
Accounts receivable	40,201	1,884	-
Due from other governments	64,516	1,591	-
Total assets	\$ 1,180,677	\$ 3,475	\$ 91,135
Liabilities			
Accounts payable	\$ 62,776	\$ -	\$ -
Accrued salaries and employee benefits	121,506	-	-
Total liabilities	184,282	-	-
Fund balances			
Restricted	-	3,475	91,135
Assigned for subsequent year's expenditures	30,800	-	-
Assigned for capital projects	100,000	-	-
Unassigned	865,595	-	-
Total fund balances	996,395	3,475	91,135
Total liabilities and fund balances	\$ 1,180,677	\$ 3,475	\$ 91,135

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



Capital Projects	Total Governmental Funds
---------------------	--------------------------------

\$ -	\$ 1,167,095
-	42,085
-	66,107

<u>\$ -</u>	<u>\$ 1,275,287</u>
-------------	---------------------

\$ -	\$ 62,776
-	121,506

-	184,282
---	---------

-	94,610
-	30,800
-	100,000
-	865,595

-	1,091,005
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<u>\$ -</u>	<u>\$ 1,275,287</u>
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MACKINAC ISLAND PUBLIC SCHOOL

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2017

Fund balances - total governmental funds	\$ 1,091,005
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	343,008
Capital assets being depreciated, net	1,718,003
Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(2,181,517)
Deferred inflows of resources related to the net pension liability	(56,902)
Deferred outflows of resources related to the net pension liability	407,822
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Bonds payable	(400,000)
Accrued interest on bonds payable	(1,045)
Compensated absences	(9,675)
Net position of governmental activities	<u>\$ 910,699</u>

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

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MACKINAC ISLAND PUBLIC SCHOOL

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2017

	General Fund	Food Service Special Revenue Fund	2010 General Obligation Refunding Bonds Debt Service Fund
Revenues			
Local sources:			
Property taxes	\$ 1,438,087	\$ -	\$ 200,960
Operating grants and contributions	43,538	-	-
Charges for services	-	10,682	-
Interest	18,683	131	1,738
State sources	280,295	3,211	-
Federal sources	40,464	9,436	-
Interdistrict sources	8,902	-	-
Total revenues	1,829,969	23,460	202,698
Expenditures			
Current:			
Instruction	1,006,640	-	-
Supporting services	696,918	-	-
Food services	-	59,653	-
Capital outlay	-	-	-
Debt service:			
Principal	-	-	190,000
Interest and paying agent fees	-	-	21,743
Total expenditures	1,703,558	59,653	211,743
Revenues over (under) expenditures	126,411	(36,193)	(9,045)
Other financing sources (uses)			
Insurance proceeds	33,325	-	-
Transfers in	-	39,668	-
Transfers out	(337,316)	-	-
Total other financing sources (uses)	(303,991)	39,668	-
Net change in fund balances	(177,580)	3,475	(9,045)
Fund balances, beginning of year	1,173,975	-	100,180
Fund balances, end of year	\$ 996,395	\$ 3,475	\$ 91,135

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



Capital Projects	Total Governmental Funds
---------------------	--------------------------------

\$ -	\$ 1,639,047
-	43,538
-	10,682
-	20,552
-	283,506
-	49,900
-	8,902
<hr/>	<hr/>
-	2,056,127
<hr/>	<hr/>

-	1,006,640
-	696,918
-	59,653
297,648	297,648
-	190,000
-	21,743
<hr/>	<hr/>
297,648	2,272,602
<hr/>	<hr/>
(297,648)	(216,475)
<hr/>	<hr/>

-	33,325
297,648	337,316
-	(337,316)
<hr/>	<hr/>
297,648	33,325
-	(183,150)
-	1,274,155
<hr/>	<hr/>
\$ -	\$ 1,091,005
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MACKINAC ISLAND PUBLIC SCHOOL

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2017

Net change in fund balances - total governmental funds \$ (183,150)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital asset purchased	358,365
Depreciation expense	(60,104)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.

Principal payments on bonds payable	190,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in net pension liability and related deferred amounts	32,442
Change in accrued interest payable on bonds	2,550
Change in the accrual for compensated absences	(137)

Change in net position of governmental activities	<u>\$ 339,966</u>
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The accompanying notes are an integral part of these basic financial statements.

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MACKINAC ISLAND PUBLIC SCHOOL

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources	\$ 1,474,150	\$ 1,510,938	\$ 1,500,308	\$ (10,630)
State sources	236,926	280,295	280,295	-
Federal sources	44,711	40,464	40,464	-
Interdistrict sources	159,236	8,902	8,902	-
Total revenues	<u>1,915,023</u>	<u>1,840,599</u>	<u>1,829,969</u>	<u>(10,630)</u>
Expenditures				
Current:				
Instruction:				
Basic programs	942,359	910,971	866,750	(44,221)
Added needs	161,304	145,947	139,890	(6,057)
Support services:				
Pupil services	31,641	33,254	32,361	(893)
Instruction staff	13,250	15,782	4,864	(10,918)
General administration	323,115	315,665	290,046	(25,619)
Business services	20,583	31,613	30,525	(1,088)
Operations and maintenance	193,655	218,111	208,891	(9,220)
Pupil transportation	27,000	36,500	42,140	5,640
Technology	50,000	62,747	44,861	(17,886)
Athletics	39,430	44,729	43,230	(1,499)
Total expenditures	<u>1,802,337</u>	<u>1,815,319</u>	<u>1,703,558</u>	<u>(111,761)</u>
Revenues over (under) expenditures	112,686	25,280	126,411	101,131
Other financing uses				
Transfers out	(184,000)	(409,600)	(337,316)	(72,284)
Net change in fund balance	<u>(71,314)</u>	<u>(384,320)</u>	<u>(210,905)</u>	<u>(173,415)</u>
Fund balance, beginning of year	<u>1,173,975</u>	<u>1,173,975</u>	<u>1,173,975</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,102,661</u>	<u>\$ 789,655</u>	<u>\$ 963,070</u>	<u>\$ 173,415</u>

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

MACKINAC ISLAND PUBLIC SCHOOL

Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual - Food Service Special Revenue Fund For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources	\$ 13,055	\$ 10,189	\$ 10,813	\$ 624
State sources	3,335	3,210	3,211	1
Federal sources	9,694	11,500	9,436	(2,064)
Total revenues	26,084	24,899	23,460	(1,439)
Expenditures				
Food services	59,900	63,400	59,653	(3,747)
Revenues under expenditures	(33,816)	(38,501)	(36,193)	2,308
Other financing sources				
Transfers in	34,000	38,600	39,668	1,068
Net change in fund balance	184	99	3,475	3,376
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ 184	\$ 99	\$ 3,475	\$ 3,376

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

MACKINAC ISLAND PUBLIC SCHOOL

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2017

	Private Purpose Trust Funds	Agency Fund
Assets		
Cash and cash equivalents	\$ 11,218	\$ 41,324
Investments - certificate of deposit	<u>106,654</u>	<u>-</u>
Total assets	<u>117,872</u>	<u>\$ 41,324</u>
Liabilities		
Due to student groups	<u>-</u>	<u>\$ 41,324</u>
Net position restricted for scholarships	<u>\$ 117,872</u>	

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

MACKINAC ISLAND PUBLIC SCHOOL

Statement of Changes in Fiduciary Net Position Private Purpose Trust Funds For the Year Ended June 30, 2017

Additions	
Investments earnings	\$ 2,508
Deductions	
Scholarships	<u>1,150</u>
Change in net position	1,358
Net position, beginning of year	<u>116,514</u>
Net position, end of year	<u><u>\$ 117,872</u></u>

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

NOTES TO FINANCIAL STATEMENTS

MACKINAC ISLAND PUBLIC SCHOOL

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the District's reporting entity, and which organizations are legally separate component units of the District. Based on application of the criteria, the District has no component units.

District-Wide and Fund Financial Statements

The District-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. The District had no business-type activities during the year ended June 30, 2017.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

MACKINAC ISLAND PUBLIC SCHOOL

Notes to Financial Statements

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

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

The District reports the following major funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources not accounted for and reported in another fund.

The *Food Service Special Revenue Fund* accounts for the food service program sponsored by the District. Revenues in the food service program consist mainly of federal awards and charges for services.

The *2010 General Obligation Refunding Bond Debt Service Fund* accounts for the property taxes assessed and collected to repay the principal and interest on the bonds which refunded the bonds related to the 1999 construction project in the District.

The *Capital Projects* Fund is used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

Fiduciary Funds account for assets held by the District in a trustee capacity or an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the District-wide financial statements. The District reports the following fiduciary funds:

The *Private Purpose Trust Funds* account for assets whereby both the principal and interest may be spent. The purpose of these trust funds is to provide scholarships to students of the District.

The *Agency Fund* accounts for assets held for other groups and organizations and are custodial in nature.

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

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

MACKINAC ISLAND PUBLIC SCHOOL

Notes to Financial Statements

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

Deposits and investments

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

Investments consist of certificates of deposit and are reported at cost.

Receivables and Payables

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

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Capital assets

Capital assets, which include property and equipment are reported in the governmental activities columns in the District-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated acquisition cost as of the date of donation.

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

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	20-50
Furniture and equipment	5-20

Deferred outflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows of resources related to pension costs. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

MACKINAC ISLAND PUBLIC SCHOOL

Notes to Financial Statements

Salaries payable and accrued employee benefits

A liability is recorded at June 30, 2017 for those amounts owed to teachers and other employees of the District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

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

Deferred inflows of resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District's deferred inflows of resources are related to pension costs.

Long-term obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. 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 on debt issuances are reported as other financing uses.

Fund balances

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other districts. *Committed fund balance* is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision-making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify, or rescind a fund balance commitment. The District reports assigned fund balance for amounts that are constrained by the District's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education has delegated the authority to assign fund balance to the District's superintendent or his designee. Unassigned fund balance is the residual classification for the General Fund.

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

MACKINAC ISLAND PUBLIC SCHOOL

Notes to Financial Statements

Restricted net position represents net position which is legally restricted by outside parties or enabling legislation.

Property taxes

Property taxes are assessed as of December 31 each year and attach as an enforceable lien on property as of the following July 1. Property taxes are levied July 1 and December 1 on the assessed valuation of property as of the preceding December 31, the lien date. Assessed values are established annually by the various governmental units within the District and are equalized by the State of Michigan. Taxes receivable are recorded for property taxes collected within 60 days of year-end, if any.

Interfund transactions

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

Pensions

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 Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. BUDGETARY INFORMATION

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

The General Fund is under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles ("GAAP"), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General Fund and Food Service Special Revenue Fund are adopted on a functional basis. All annual appropriations lapse at fiscal year-end.

MACKINAC ISLAND PUBLIC SCHOOL

Notes to Financial Statements

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2017, the District incurred expenditures in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General fund			
Pupil transportation	\$ 36,500	\$ 42,140	\$ 5,640

3. DEFICIT NET POSITION

At June 30, 2017, the District reported a deficit in unrestricted net position of governmental activities of \$803,099; however, total net position is not a deficit. The deficit is due to the reporting requirements of GASB 68 which requires the District to report its proportionate share of the MPERS net pension liability on the District-wide statement of net position.

4. STATE OF MICHIGAN SCHOOL AID

The District reports State of Michigan school aid in the fiscal year in which the District is entitled to the revenue as provided by State of Michigan school aid appropriation acts. State funding represented 15% of the District's general fund revenue during the 2017 fiscal year.

5. CASH AND CASH EQUIVALENTS

The following is a reconciliation of deposit and investment balances as of June 30, 2017:

Statement of net position	
Cash and cash equivalents	\$ 1,167,095
Statement of fiduciary net position	
Private purpose trust funds:	
Cash and cash equivalents	11,218
Investments (certificates of deposit)	106,654
Agency fund:	
Cash and cash equivalents	<u>41,324</u>
Total	<u><u>\$ 1,326,291</u></u>
Deposits and investments	
Checking and savings accounts:	\$ 1,219,587
Certificates of deposit:	
Due within one year	1,000
Due within one to five years	105,654
Cash on hand	<u>50</u>
Total	<u><u>\$ 1,326,291</u></u>

Investments included in the private purpose trust fund consist of certificates of deposits which are reported at cost.

MACKINAC ISLAND PUBLIC SCHOOL

Notes to Financial Statements

Michigan law authorizes the District to invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than five years after the purchase dates.
- b. Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows all of the above types of investments. The District does not have specific policies relating to credit risk, interest rate risk or custodial risk for investments.

Deposit Risk

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial risk. As of the year ended June 30, 2017, \$997,635 of the District's bank balance of \$1,247,635 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Risk. State law limits investments as noted above. The District does not have any investments for which ratings are required.

MACKINAC ISLAND PUBLIC SCHOOL

Notes to Financial Statements

6. RECEIVABLES

Receivables as of June 30, 2017, are comprised of the following:

	Amount
Accounts receivable	\$ 42,085
Due from other governments	<u>66,107</u>
	<u>\$ 108,192</u>

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2017, are comprised of the following:

	Amount
Accounts payable	\$ 62,776
Accrued interest	1,045
Accrued salaries and employee benefits	<u>121,506</u>
	<u>\$ 185,327</u>

8. INTERFUND TRANSFERS

For the year ended June 30, 2017, interfund transfers consisted of the following:

	Transfers in	Transfers out
General Fund	\$ -	\$ 337,316
Food Service Special Revenue Fund	39,668	-
Capital Projects Fund	<u>297,648</u>	<u>-</u>
	<u>\$ 337,316</u>	<u>\$ 337,316</u>

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

MACKINAC ISLAND PUBLIC SCHOOL

Notes to Financial Statements

9. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 45,360	\$ -	\$ -	\$ 45,360
Construction in progress	-	297,648	-	297,648
	<u>45,360</u>	<u>297,648</u>	<u>-</u>	<u>343,008</u>
Capital assets, being depreciated:				
Buildings and improvements	2,767,287	51,767	-	2,819,054
Furniture and equipment	184,862	8,950	-	193,812
	<u>2,952,149</u>	<u>60,717</u>	<u>-</u>	<u>3,012,866</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,111,769)	(53,709)	-	(1,165,478)
Furniture and equipment	(122,990)	(6,395)	-	(129,385)
	<u>(1,234,759)</u>	<u>(60,104)</u>	<u>-</u>	<u>(1,294,863)</u>
Total capital assets being depreciated, net	<u>1,717,390</u>	<u>613</u>	<u>-</u>	<u>1,718,003</u>
Governmental activities capital assets, net	<u>\$ 1,762,750</u>	<u>\$ 298,261</u>	<u>\$ -</u>	<u>\$ 2,061,011</u>

The land on which the school is built is owned by the City of Mackinac Island.

It is anticipated that the District will incur an additional \$100,000 to complete the employee housing duplex.

Depreciation expense was charged to functions/programs of the District as follows:

Depreciation of governmental activities by function	
Instruction	\$ 1,596
Supporting services	8,353
Unallocated	50,155
	<u>60,104</u>
	<u>\$ 60,104</u>

MACKINAC ISLAND PUBLIC SCHOOL

Notes to Financial Statements

10. LONG-TERM DEBT

Long-term debt of the District consists of the following at June 30, 2017:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation	\$ 590,000	\$ -	\$ (190,000)	\$ 400,000	\$ 200,000
Other long-term liabilities					
Compensated absences	9,538	10,512	(10,375)	9,675	-
Total long-term liabilities	<u>\$ 599,538</u>	<u>\$ 10,512</u>	<u>\$ (200,375)</u>	<u>\$ 409,675</u>	<u>\$ 200,000</u>

General obligation bonds payable at June 30, 2017, includes the following:

\$1,600,000, 2010 general obligation refunding bonds due in annual installments from \$200,000 plus interest ranging from 3.65% to 4.00%; final payment due May 2019.	<u>\$ 400,000</u>
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The annual debt service requirements to maturity for bonds payable, including both principal and interest, are as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 200,000	\$ 15,300	\$ 215,300
2019	200,000	8,000	208,000
	<u>\$ 400,000</u>	<u>\$ 23,300</u>	<u>\$ 423,300</u>

Interest expense was \$19,193 for the year ended June 30, 2017.

Compensated absences are generally liquidated by the General Fund.

11. RETIREMENT PLAN

Plan Description

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

MACKINAC ISLAND PUBLIC SCHOOL

Notes to Financial Statements

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

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

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits for 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.

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

Contributions and Funded Status

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

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

The table below summarizes pension contribution rates in effect for fiscal year 2017:

Benefit Structure	Member Rates	Employer Rates
Basic	0.0% - 4.0%	18.95% - 19.03%
Member Investment Plan (MIP)	3.0% - 7.0%	18.95% - 19.03%
Pension Plus	3.0% - 6.4%	17.73% - 18.40%
Defined Contribution	0.0%	14.56% - 15.27%

The District's contribution to MPSERS under all pension plans for the year ended June 30, 2017 was \$252,756.

MACKINAC ISLAND PUBLIC SCHOOL

Notes to Financial Statements

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

At June 30, 2017, the District reported a liability of \$2,181,517 for its proportionate share of the MPERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2015. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2016, the District's proportion was 0.00874%, which was an increase of .00043% from its proportion measured as of September 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$213,073. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ 27,187	\$ 5,170	\$ 22,017
Changes in assumptions	34,106	-	34,106
Net difference between projected and actual earnings on pension plan investments	36,257	-	36,257
Changes in proportion and differences between employer contributions and proportionate share of contributions	84,814	51,732	33,082
	<u>182,364</u>	<u>56,902</u>	<u>125,462</u>
District contributions subsequent to the measurement date	225,458	-	225,458
	<u>225,458</u>	<u>-</u>	<u>225,458</u>
Total	<u>\$ 407,822</u>	<u>\$ 56,902</u>	<u>\$ 350,920</u>

MACKINAC ISLAND PUBLIC SCHOOL

Notes to Financial Statements

\$225,458 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts 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
2018	\$ 22,327
2019	19,475
2020	62,116
2021	<u>21,544</u>
Total	<u>\$ 125,462</u>

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension liability in the September 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	8.0%
Pension Plus plan (hybrid)	7.0%
Projected salary increases	3.5% - 12.3%, including wage inflation at 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.

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, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study.

MACKINAC ISLAND PUBLIC SCHOOL

Notes to Financial Statements

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by 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, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.90%	1.64%
Alternative investment pools	18.00%	9.20%	1.66%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.90%	0.09%
Real estate and infrastructure pools	10.00%	4.30%	0.43%
Absolute return pools	15.50%	6.00%	0.93%
Short-term investment pools	2.00%	0.00%	0.00%
	100.00%		5.90%
Inflation			2.10%
Investment rate of return			8.00%

Discount Rate

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

MACKINAC ISLAND PUBLIC SCHOOL

Notes to Financial Statements

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

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
District's proportionate share of the net pension liability	\$ 2,809,244	\$ 2,181,517	\$ 1,652,282

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2017, the District reported a payable of \$19,017 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2017.

Other Postemployment Benefits

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the Premium Subsidy plan, a defined benefit postemployment healthcare plan, which is funded by employers on a prefunded basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Employer contributions range from 5.69% to 6.83% of covered payroll. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% of cost.

Plan members enrolled on or after September 4, 2012 participate in the Personal Healthcare Fund. This defined contribution other postemployment benefits plan includes a required 2% employee contribution into a personal tax-deferred account, which is matched by an additional 2% employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3% employee contribution. Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual's Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 were declared unconstitutional by the Supreme Court. Such amounts will be refunded by MPSERS to each District, including interest, and will then be refunded to individual employees.

MACKINAC ISLAND PUBLIC SCHOOL

Notes to Financial Statements

The District's contributions to MPSERS for other postemployment benefits amounted to \$28,780 for the year ended June 30, 2017.

12. COMMITMENTS AND CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and contracts. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2017.

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. During fiscal 2017, the District had purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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

The District is a reimbursing employer to the Michigan Employment Security Commission (the "Commission") and as such is responsible to pay the Commission for all benefits paid and charged to the District. As of June 30, 2017, appropriate liabilities have been recorded for all claims paid by the Commission which have been submitted to the District. However, no provision has been made for future payments that might result from claims unprocessed or unfiled.

13. NET INVESTMENT IN CAPITAL ASSETS

The composition of the District's net investment in capital assets as of June 30, 2017, was as follows:

Capital assets, net of depreciation	\$ 2,061,011
Less related debt:	
Bonds payable	<u>(400,000)</u>
Net investment in capital assets	<u>\$ 1,661,011</u>



REQUIRED SUPPLEMENTARY INFORMATION

MACKINAC ISLAND PUBLIC SCHOOL

Required Supplementary Information MPSERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,		
	2017	2016	2015
District's proportionate share of the net pension liability	\$ 2,181,517	\$ 2,028,591	\$ 1,903,843
District's proportion of the net pension liability	0.00874%	0.00831%	0.00864%
District's covered-employee payroll	\$ 763,038	\$ 701,492	\$ 733,472
District's proportionate share of the net pension liability as a percentage of its covered payroll	285.90%	289.18%	259.57%
Plan fiduciary net position as a percentage of the total pension liability	63.27%	63.17%	66.20%

MACKINAC ISLAND PUBLIC SCHOOL

Required Supplementary Information MPSERS Cost-Sharing Multiple-Employer Plan

Schedule of District Contributions

	Year Ended June 30,		
	2017	2016	2015
Contractually required contribution	\$ 252,756	\$ 188,641	\$ 156,877
Contributions in relation to the contractually required contribution	<u>(252,756)</u>	<u>(188,641)</u>	<u>(156,877)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 767,143	\$ 745,410	\$ 694,562
Contributions as a percentage of covered payroll	32.95%	25.31%	22.59%

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

MACKINAC ISLAND PUBLIC SCHOOL

Schedule of Revenues

General Fund
For the Year Ended June 30, 2017

Revenue	
Local sources:	
Property taxes	\$ 1,438,087
Operating grants and contributions	43,538
Interest	<u>18,683</u>
Total local sources	<u>1,500,308</u>
State sources:	
Special education headlee obligation	44,464
Isolated district grant	101,460
MPSER cost offset	106,248
Technology infrastructure	1,728
Robotics	6,500
Great start readiness program (GSRP)	16,500
Other	<u>3,395</u>
Total state sources	<u>280,295</u>
Federal sources:	
Flowthrough	7,254
Rural education achievement program	15,615
State pass-through Title I and Title II	<u>17,595</u>
Total federal sources	<u>40,464</u>
Interdistrict sources:	
Special education distribution	8,622
Other	<u>280</u>
Total interdistrict sources	<u>8,902</u>
Other financing sources	
Insurance proceeds	<u>33,325</u>
Total revenues and other financing sources	<u><u>\$ 1,863,294</u></u>

MACKINAC ISLAND PUBLIC SCHOOL

Schedule of Expenditures and Other Financing Uses

General Fund

For the Year Ended June 30, 2017

Expenditures

Instruction:

Basic programs:

Preschool:

Salaries	\$ 14,188
Employee benefits	8,657
Purchased services	296
Supplies and materials	4,844
Total preschool	<u>27,985</u>

Elementary:

Salaries	198,877
Employee benefits	130,568
Purchased services	20,469
Supplies and materials	4,245
Total elementary	<u>354,159</u>

Secondary:

Salaries	260,782
Employee benefits	183,133
Purchased services	29,818
Supplies and materials	10,873
Total secondary	<u>484,606</u>

Total basic programs

866,750

Added needs:

Salaries	88,914
Employee benefits	48,039
Purchased services	1,940
Supplies and materials	997
	<u>139,890</u>

Total added needs

139,890

Total instruction

1,006,640

Supporting services:

Pupil services:

Speech services:

Salaries	<u>32,361</u>
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Continued...

MACKINAC ISLAND PUBLIC SCHOOL

Schedule of Expenditures and Other Financing Uses

General Fund
For the Year Ended June 30, 2017

Supporting services (continued)

Instruction staff:

Library:

Purchased services	\$ 409
Supplies and materials	1,697
Total library	<u>2,106</u>

Academic student assessment:

Supplies and materials	<u>2,758</u>
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Total instruction staff

<u>4,864</u>

General administration:

Board of education:

Salaries	350
Employee benefits	156
Purchased services	6,922
Other	686
Total board of education	<u>8,114</u>

Executive administration:

Salaries	154,884
Employee benefits	109,325
Purchased services	10,254
Supplies and materials	4,242
Other	3,227
Total executive administration	<u>281,932</u>

Total general administration

<u>290,046</u>

Business services:

Fiscal services:

Contracted services	19,500
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Business office:

Purchased services	<u>11,025</u>
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Total business services

<u>30,525</u>

Continued...

MACKINAC ISLAND PUBLIC SCHOOL

Schedule of Expenditures and Other Financing Uses

General Fund

For the Year Ended June 30, 2017

Supporting services (concluded)

Operations and maintenance:

Salaries	\$ 32,795
Employee benefits	29,356
Purchased services	38,743
Supplies and materials	56,230
Capital outlay	51,767
Total operations and maintenance	<u>208,891</u>

Pupil transportation:

Transportation purchased services	<u>42,140</u>
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Technology:

Purchased services	35,879
Supplies and materials	32
Capital outlay	8,950
Total technology	<u>44,861</u>

Athletics:

Salaries	14,467
Employee benefits	6,479
Purchased services	19,267
Supplies and materials	3,017
Total athletics	<u>43,230</u>

Total supporting services

696,918

Total expenditures

1,703,558

Other financing uses

Transfer out

337,316

Total expenditures and other financing uses

\$ 2,040,874

Concluded

MACKINAC ISLAND PUBLIC SCHOOL

Statement of Changes in Fiduciary Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2017

	Balances July 1, 2016	Receipts	Disbursements	Balances June 30, 2017
Assets				
Cash	\$ 31,450	\$ 45,714	\$ 35,840	\$ 41,324
Liabilities				
Due to student groups	\$ 31,450	\$ 45,714	\$ 35,840	\$ 41,324
Due to student groups				
Class of 2015	\$ 3	\$ -	\$ 3	\$ -
Class of 2016	361	-	361	-
Class of 2017	2,183	6,792	8,429	546
Class of 2018	1,409	1,550	860	2,099
Class of 2019	622	2,958	2,369	1,211
Class of 2020	-	2,009	1,648	361
Project Close-Up	5,435	102	-	5,537
Travel Club	11,264	992	2,288	9,968
Kindness Fund	3,053	125	829	2,349
Activity Fund	842	5,872	-	6,714
Yearbook	685	429	458	656
Golf	2,205	279	500	1,984
Sports Boosters	538	21,114	18,095	3,557
Memorial Fund	1,000	3,332	-	4,332
Northern Lights League	1,850	160	-	2,010
Total	\$ 31,450	\$ 45,714	\$ 35,840	\$ 41,324

MACKINAC ISLAND PUBLIC SCHOOL

Combining Statement of Fiduciary Assets and Liabilities

Private Purpose Trust Funds

June 30, 2017

	John Franks Scholarship Fund	Stella King Scholarship Fund	Total
Assets			
Cash and cash equivalents	\$ 6,096	\$ 5,122	\$ 11,218
Investments	105,654	1,000	106,654
	<u> </u>	<u> </u>	<u> </u>
Total assets equal to net position, restricted for scholarships	<u>\$ 111,750</u>	<u>\$ 6,122</u>	<u>\$ 117,872</u>

MACKINAC ISLAND PUBLIC SCHOOL

Combining Statement of Changes in Fiduciary Net Position Private Purpose Trust Funds For the Year Ended June 30, 2017

	John Franks Scholarship Fund	Stella King Scholarship Fund	Total
Additions			
Investments earnings	\$ 1,410	\$ 1,098	\$ 2,508
Deductions			
Scholarships	250	900	1,150
Change in net position	1,160	198	1,358
Net position, beginning of year	110,590	5,924	116,514
Net position, end of year	<u>\$ 111,750</u>	<u>\$ 6,122</u>	<u>\$ 117,872</u>

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**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

October 27, 2017

Board of Education
Mackinac Island Public Schools
Mackinac Island, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Mackinac Island Public School* (the "District"), as of and for the year ended June 30, 2017, 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 27, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rehmann Robson LLC

MACKINAC ISLAND PUBLIC SCHOOL

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2017

Finding 2016-001 - Preparation of External GAAP Basis Financial Statements

In the prior year, the District relied on its external auditors for preparation of the financial statements in accordance with Generally Accepted Accounting Principles (GAAP). The District's third party accountant service organization, Easter Upper Peninsula Intermediate School District (the "ISD"), has agreed to assist and oversee the financial statement process. As such, this finding is considered resolved.

