



WEINLANDER FITZHUGH

MIO AUSABLE SCHOOLS
MIO, MICHIGAN

FINANCIAL STATEMENTS
JUNE 30, 2018

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WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

October 25, 2018

Board of Education
Mio AuSable Schools
Mio, 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 Mio AuSable Schools (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 U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards 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 Mio AuSable Schools as of June 30, 2018 and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

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Board of Education
Mio AuSable Schools
October 25, 2018

Emphasis of Matter

As discussed in Note 14 to the financial statements, in 2018, the School District adopted new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, budgetary comparison information, pension schedules and other postemployment benefits schedules as noted 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 U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining nonmajor fund financial statements and schedule of bonded indebtedness are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the combining nonmajor fund financial statements and schedule of bonded indebtedness are fairly stated in all material respects in relation to the basic financial statements as a whole.



WEINLANDER FITZHUGH

Board of Education
Mio AuSable Schools
October 25, 2018

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2018, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Weinlander Fitzhugh

MIO AUSABLE SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Our discussion and analysis of Mio AuSable Schools' (School District) financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2018.

Financial Highlights

The School District's net position decreased by \$103,671. Program revenues were \$1,592,461 or 27% of total revenues, and general revenues were \$4,374,370 or 73%.

The General Fund reported a positive fund balance of \$107,566. The Food Service Fund reported a positive fund balance of \$27,722.

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

The 2017 figures have not been updated for the adoption of GASB 75.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund and Food Service Fund with all other funds presented in one column as nonmajor funds. The remaining statements, the statement of fiduciary net position and changes in fiduciary net position, present financial information about activities for which the School District acts solely as an agent for the benefit of students. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- District-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Budgetary Information for the Food Service Fund (Required Supplemental Information)

Pension Schedules (Required Supplemental Information)

OPEB Schedules (Required Supplemental Information)

Other Supplemental Information

MIO AUSABLE SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Reporting the District as a Whole

The Statement of Net Position and Statement of Activities

One of the most important questions asked about the School District's finances is: "Is the School District better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the School District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School District's net position as a way to measure the School District's financial position. The change in net position provides the reader a tool to assist in determining whether the School District's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, student enrollment growth and facility conditions in arriving at their conclusion regarding the overall health of the School District.

Reporting the District's Most Significant Funds

Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other sources of revenue. The School District's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

Fiduciary Funds

The School District is the trustee, or fiduciary, for its student activity funds and scholarship funds. All of the School District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. We exclude these activities from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

MIO AUSABLE SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

District-wide Financial Analysis

The statement of net position provides the perspective of the School District as a whole. Exhibit A provides a summary of the School District's net position as of June 30, 2018 and 2017:

Exhibit A	Governmental Activities	
	2018	Nonrestated 2017
Assets		
Current and other assets	\$ 1,095,775	\$ 1,583,866
Capital assets - net of accumulated depreciation	4,463,892	4,486,758
Total assets	5,559,667	6,070,624
Deferred Outflows of Resources		
Related to pensions and OPEB	1,885,033	1,011,411
Liabilities		
Current liabilities	1,075,684	1,176,085
Long-term liabilities	12,609,472	9,631,879
Total liabilities	13,685,156	10,807,964
Deferred Inflows of Resources		
Related to pensions and OPEB	1,072,875	527,833
Net Position		
Net investment in capital assets	3,150,653	2,927,871
Restricted	53,000	83,819
Unrestricted	(10,516,984)	(7,265,452)
Total net position	\$ (7,313,331)	\$ (4,253,762)

The analysis on the previous page focuses on net position (see Exhibit A). The School District's net position of governmental activities was \$(7,313,331) at June 30, 2018. Investment in property and equipment, net of related debt totaling \$3,150,653, compares the original costs less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt requirements and legislation that limit the School District's ability to use that net position for day-to-day operations.

The \$(10,516,984) in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The School District implemented GASB Statement No. 68 in 2015. The effect of this Statement required the School District to report in the summary of net position, a liability of \$8,536,152 for 2018 and \$8,190,806 for 2017.

MIO AUSABLE SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

The School District implemented GASB Statement No. 75 in 2018. The effect of this Statement required the School District to report in the summary of net position, a liability of \$2,912,618 for 2018 and \$0 for 2017. The 2017 summary of the School District's net position was not restated to reflect this implementation.

The results of this year's operations for the School District as a whole are reported in the statement of activities. Exhibit B provides a summary of the changes in net position for the years ended June 30, 2018 and 2017.

Exhibit B	<u>Governmental Activities</u>	
	<u>2018</u>	<u>Nonrestated 2017</u>
Revenues		
Program revenue:		
Charges for services	\$ 113,697	\$ 121,582
Grants and categoricals	1,478,764	1,449,490
General revenue:		
Property taxes	2,519,000	2,413,809
State aid	1,750,535	1,803,018
Other	104,835	92,746
Total revenues	<u>5,966,831</u>	<u>5,880,645</u>
Function/Program Expenses		
Instruction	3,533,634	3,646,876
Support services	1,602,634	1,597,695
Community services	864	3,115
Food services	300,593	296,170
Athletics	43,483	33,141
Capital outlay	20,149	33,773
Payments to other governmental units	245,931	281,657
Interest on long-term debt	25,396	27,386
Depreciation (unallocated)	297,018	271,676
Loss on sale of assets	800	0
Total expenses	<u>6,070,502</u>	<u>6,191,489</u>
Change in Net Position	<u>\$ (103,671)</u>	<u>\$ (310,844)</u>

The School District implemented GASB Statement No. 75 for 2018. The effect of this Statement required the School District to report in the summary of the change in net position, an expense of \$217,664. The 2017 summary of the School District's change in net position was not restated to reflect this implementation.

As reported in the statement of activities, the cost of all of our governmental activities this year was \$6,070,502. Certain activities were partially funded from those who benefited from the programs, \$113,697, or by the other governments and organizations that subsidized certain programs with grants and categoricals of \$1,478,764. We paid for the remaining "public benefit" portion of our governmental activities with \$2,519,000 in taxes, \$1,750,535 in State aid and with our other revenues, such as interest and entitlements.

MIO AUSABLE SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

The School District's governmental activities had a decrease in net position of \$103,671 due to retiree pay out of sick and vacation time.

The School District's Funds

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

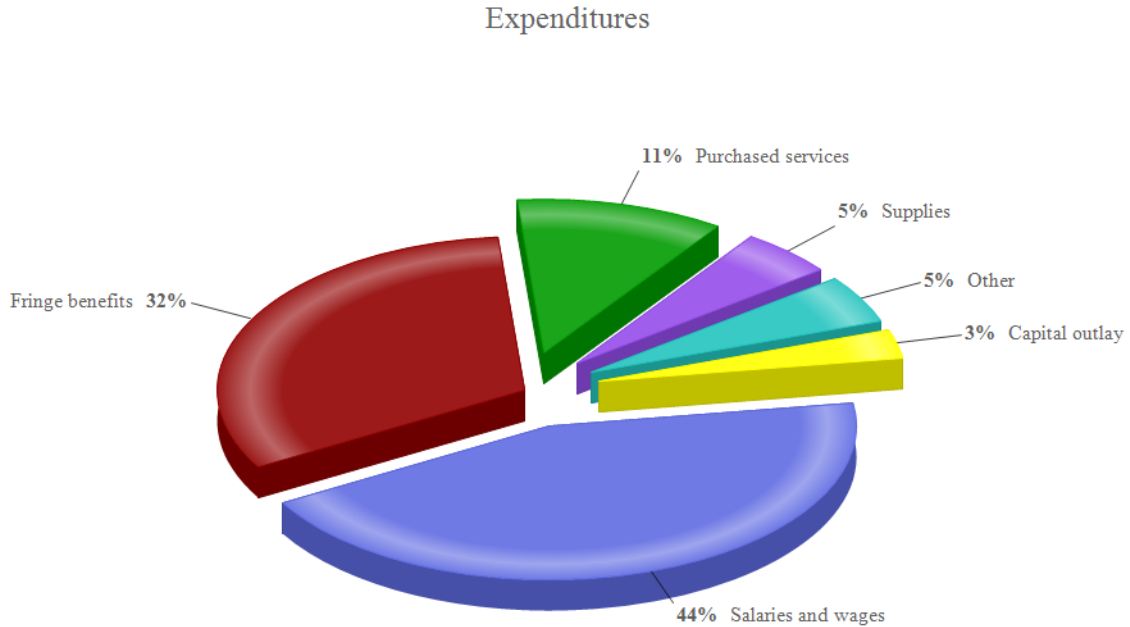
The School District's governmental funds reported a combined fund balance of \$192,507, which is below last year's total of \$648,739. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2018 and 2017.

	Fund Balance <u>6/30/2018</u>	Fund Balance <u>6/30/2017</u>	Increase (Decrease) <u></u>
General	\$ 107,566	\$ 519,753	\$ (412,187)
Special Revenue	27,722	40,209	(12,487)
Debt Service	56,913	68,452	(11,539)
Capital Projects	306	20,325	(20,019)
	<u>\$ 192,507</u>	<u>\$ 648,739</u>	<u>\$ (456,232)</u>

- Our General Fund decrease is mainly due to the purchase of two buses with funds received in the previous fiscal year and the failure to receive \$72,000 of federal funds during the current fiscal year.
- Our Special Revenue Funds decrease is due to expenses being greater than budget and an indirect expense transfer.
- Our Debt Service Fund decrease is due to the periodic payment on the bonds.
- Our Capital Projects Fund decrease is mostly due to the purchase of chromebooks.

MIO AUSABLE SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

As the graph below illustrates, the largest portions of General Fund expenditures are for salaries and fringe benefits. The School District by nature is a labor intensive organization.



Expenditures by Object	2018	2017
Salaries and wages	\$ 2,508,391	\$ 2,714,973
Fringe benefits	1,875,192	1,818,426
Purchased services	638,228	476,652
Supplies	309,111	278,335
Capital outlay	162,667	825
Other	292,968	376,786
Total	\$ 5,786,557	\$ 5,665,997

Expenditures have increased by \$120,560 from the prior year mainly due to the purchase of two buses and retiree pay out of sick and vacation time.

MIO AUSABLE SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenues were decreased by \$37,294 mainly to adjust for variations between state and federal funds.
- Budgeted expenditures were decreased by \$18,200, which was deemed to be insignificant.
- Actual revenues to final budget decreased by \$38,629 due to the failure to collect all federal funds in a timely fashion.
- Actual expenditures to final budget increased by \$326,377 due to the purchase of two buses that were not reflected in the budget and an increase in retirement payments.

Capital Assets

At June 30, 2018, the School District had \$4,463,892 invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net decrease (including additions and disposals) of 1% from last year.

	2018	2017
Land improvements	\$ 933,703	\$ 933,703
Buildings and improvements	7,778,195	7,664,195
Buses and other vehicles	730,541	1,187,368
Furniture and equipment	582,643	820,409
Total capital assets	10,025,082	10,605,675
Less accumulated depreciation	5,561,190	6,118,917
Net capital assets	\$ 4,463,892	\$ 4,486,758

The School District's additions for the 2017-2018 school year included 2 buses and the elementary wing's roof.

Debt

At the end of this year, the School District had \$1,135,000 in bonds outstanding versus \$1,345,000 in the previous year - a decrease of 16%.

	2018	2017
2013 debt service	\$ 1,135,000	\$ 1,345,000

MIO AUSABLE SCHOOLS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Factors Expected to have an Effect on Future Operations

Our elected Board and administration consider many factors when setting the School District's 2019 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2019 fiscal year budget was adopted in June 2018, based on an estimate of students that will be enrolled in September 2018. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2018-2019 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2019 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation until 2018-2019.

Requests for Information

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

Office of the Superintendent
Mio AuSable Schools
1110 W. 8th Street
Mio, MI 48647

MIO AUSABLE SCHOOLS
Statement of Net Position
June 30, 2018

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and investments	\$ 539,418
Receivables - net:	
Accounts receivable	2,799
Due from other governmental units	548,299
Inventory	401
Prepaid expenses	4,858
Capital assets less accumulated depreciation \$5,561,190	<u>4,463,892</u>
Total assets	<u>5,559,667</u>
<u>Deferred Outflows of Resources</u>	
Related to pensions	1,726,955
Relate to OPEB	<u>158,078</u>
Total deferred outflows of resources	<u>1,885,033</u>
<u>Liabilities</u>	
Accounts payable	224,478
Accrued payroll and other liabilities	554,022
Unearned revenue	51,965
Accrued interest payable	4,219
Long-term liabilities:	
Due within one year	241,000
Due in more than one year	1,160,702
Net pension liability	8,536,152
Net OPEB liability	<u>2,912,618</u>
Total liabilities	<u>13,685,156</u>
<u>Deferred Inflows of Resources</u>	
Related to pensions	974,407
Related to OPEB	<u>98,468</u>
Total deferred inflows of resources	<u>1,072,875</u>
<u>Net Position</u>	
Net investment in capital assets	3,150,653
Restricted for debt service	52,694
Restricted for capital projects	306
Unrestricted	<u>(10,516,984)</u>
Total net position	<u>\$ (7,313,331)</u>

See accompanying notes to financial statements.

MIO AUSABLE SCHOOLS
Statement of Activities
For the Year Ended June 30, 2018

	Program Revenues			Governmental Activities
Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Position	
<u>Functions/Programs</u>				
Primary government -				
Governmental activities:				
Instruction	\$ 3,533,634	\$ 25,775	\$ 1,086,310	\$ (2,421,549)
Support services	1,602,634	0	145,186	(1,457,448)
Community services	864	0	0	(864)
Food services	300,593	43,133	247,268	(10,192)
Athletics	43,483	44,789	0	1,306
Capital outlay	20,149	0	0	(20,149)
Payments to other				
governmental units	245,931	0	0	(245,931)
Interest on long-term debt	25,396	0	0	(25,396)
Depreciation (unallocated)	297,018	0	0	(297,018)
Loss on sale of assets	800	0	0	(800)
	<u>\$ 6,070,502</u>	<u>\$ 113,697</u>	<u>\$ 1,478,764</u>	<u>(4,478,041)</u>
Total governmental activities				
General revenues:				
Taxes:				
Property taxes, levied for general purposes				2,291,068
Property taxes, levied for debt services				227,932
State aid				1,750,535
Interest and investment earnings				14,228
Other				90,607
				4,374,370
Total general revenues				
Change in net position				(103,671)
Net position - beginning of year, restated				(7,209,660)
Net position - end of year				\$ (7,313,331)

See accompanying notes to financial statements.

MIO AUSABLE SCHOOLS
Governmental Funds
Balance Sheet
June 30, 2018

	General	Food Service	Other Nonmajor Governmental Funds	Total
<u>Assets</u>				
Cash and investments	\$ 388,593	\$ 110,528	\$ 40,297	\$ 539,418
Receivables - net:				
Accounts receivable	2,799	0	0	2,799
Due from other funds	89,847	0	18,581	108,428
Due from other governmental units	536,250	12,049	0	548,299
Inventory	0	401	0	401
Prepaid expenditures	4,858	0	0	4,858
	<u>\$ 1,022,347</u>	<u>\$ 122,978</u>	<u>\$ 58,878</u>	<u>\$ 1,204,203</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balance</u>				
<u>Liabilities</u>				
Accounts payable	\$ 224,478	\$ 0	\$ 0	\$ 224,478
Due to other funds	18,581	88,188	1,659	108,428
Accrued payroll and other liabilities	554,022	0	0	554,022
Unearned revenue	44,897	7,068	0	51,965
	<u>841,978</u>	<u>95,256</u>	<u>1,659</u>	<u>938,893</u>
<u>Deferred Inflows of Resources</u>				
Unavailable revenue	72,803	0	0	72,803
<u>Fund Balance</u>				
Nonspendable - inventory	0	401	0	401
Nonspendable - prepaid	4,858	0	0	4,858
Restricted for debt service	0	0	56,913	56,913
Restricted for capital projects	0	0	306	306
Restricted for food service	0	27,321	0	27,321
Unassigned	102,708	0	0	102,708
	<u>107,566</u>	<u>27,722</u>	<u>57,219</u>	<u>192,507</u>
Total liabilities, deferred outflows of resources and fund balance	<u>\$ 1,022,347</u>	<u>\$ 122,978</u>	<u>\$ 58,878</u>	<u>\$ 1,204,203</u>

See accompanying notes to financial statements.

MIO AUSABLE SCHOOLS
 Reconciliation of Balance Sheet of Governmental Funds
 to the Statement of Net Position
June 30, 2018

Total fund balance - governmental funds	\$ 192,507
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 are not reported in the funds	
Cost of the capital assets	10,025,082
Accumulated depreciation	(5,561,190)
Deferred outflows used in governmental activities are not financial resources and therefore are not reported in governmental funds:	
Related to pensions	1,726,955
Relate to OPEB	158,078
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(1,135,000)
Compensated absences	(88,463)
Installment purchase	(130,000)
Bond premium, net of amortization	(48,239)
Net pension liability	(8,536,152)
Net OPEB liability	(2,912,618)
Accrued interest payable is included as a liability in governmental activities	(4,219)
Deferred inflows used in governmental activities are not recognized as current resources and therefore are not reported in governmental funds:	
Related to pensions	(974,407)
Related to OPEB	(98,468)
Unavailable revenue	<u>72,803</u>
Total net position - governmental activities	<u>\$ (7,313,331)</u>

See accompanying notes to financial statements.

MIO AUSABLE SCHOOLS
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2018

	<u>General</u>	<u>Food Service</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Revenues</u>				
Local sources				
Property taxes	\$ 2,291,068	\$ 0	\$ 229,432	\$ 2,520,500
Other local sources	109,095	50,838	2,084	162,017
State sources	2,541,445	15,063	0	2,556,508
Federal sources	405,424	232,205	0	637,629
Interdistrict and other sources	17,338	0	0	17,338
Total revenues	<u>5,364,370</u>	<u>298,106</u>	<u>231,516</u>	<u>5,893,992</u>
<u>Expenditures</u>				
Current:				
Instruction	3,585,827	0	0	3,585,827
Support services	1,881,592	0	0	1,881,592
Community services	864	0	0	864
Food services	0	300,593	0	300,593
Athletics	43,483	0	0	43,483
Capital outlay	0	0	20,149	20,149
Debt service:				
Principal	26,000	0	210,000	236,000
Interest and other	2,860	0	32,925	35,785
Total expenditures	<u>5,540,626</u>	<u>300,593</u>	<u>263,074</u>	<u>6,104,293</u>
Excess (deficiency) of revenues over expenditures	<u>(176,256)</u>	<u>(2,487)</u>	<u>(31,558)</u>	<u>(210,301)</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	10,000	0	0	10,000
Operating transfers out	0	(10,000)	0	(10,000)
Payments to other governmental units	(245,931)	0	0	(245,931)
Total other financing sources (uses)	<u>(235,931)</u>	<u>(10,000)</u>	<u>0</u>	<u>(245,931)</u>
Net change in fund balance	(412,187)	(12,487)	(31,558)	(456,232)
Fund balance - beginning of year	<u>519,753</u>	<u>40,209</u>	<u>88,777</u>	<u>648,739</u>
Fund balance - end of year	<u>\$ 107,566</u>	<u>\$ 27,722</u>	<u>\$ 57,219</u>	<u>\$ 192,507</u>

See accompanying notes to financial statements.

MIO AUSABLE SCHOOLS
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2018

Net change in fund balance - total governmental funds	\$ (456,232)
<p>Amounts reported for governmental activities in the statements of activities are different because:</p>	
<p style="padding-left: 20px;">Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation</p>	
Depreciation expense	(297,018)
Capital outlay	274,952
Unavailable revenue from other governmental units at June 30, 2018 and collected after September 1, 2018	72,803
Loss on sale of assets	(800)
<p>Long-term liabilities are not due and payable in the current period and are not reported in the funds:</p>	
Repayment of bonds	210,000
Installment purchase	26,000
Decreases in compensated absences are reported as a subtraction in expenditures when financial resources are used in the governmental fund in accordance with GASB Interpretation No. 6	29,723
Decreases in accrued interest are reported as a subtraction in expenses on the Statement of Activities	739
Governmental funds report the effect of premiums when debt is first issued, whereas this amount is amortized in the Statement of Activities	
Amortization of bond premium	9,648
<p>Some revenues and expenses reported in the statement of activities are not recognized as or require the use of current financial resources and, therefore, are not reported in the governmental funds</p>	
Pension related items	(76,375)
OPEB related items	102,889
Change in net position of governmental activities	<u>\$ (103,671)</u>

See accompanying notes to financial statements.

MIO AUSABLE SCHOOLS
 Fiduciary Funds
 Statement of Fiduciary Net Position
June 30, 2018

	<u>Agency Funds</u>	<u>Private Purpose Trusts</u>
<u>Assets</u>		
Cash and investments	\$ <u>103,903</u>	\$ <u>10,000</u>
<u>Liabilities</u>		
Due to student groups	\$ <u>103,903</u>	<u>0</u>
<u>Net Position</u>		
Held in trust for scholarships		\$ <u>10,000</u>

MIO AUSABLE SCHOOLS
 Fiduciary Funds
 Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2018

	<u>Private Purpose Trusts</u>
<u>Additions</u>	
Contributions and investment income	\$ 105
<u>Deductions</u>	
Scholarships	<u>105</u>
Change in net position	0
Net position - beginning of year	<u>10,000</u>
Net position - end of year	\$ <u>10,000</u>

See accompanying notes to financial statements.

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Mio AuSable Schools (School District) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected 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 financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School 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 nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. 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. All of the School District's government-wide activities are considered governmental activities.

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

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

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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 revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include; (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. 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, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The School District reports the following major governmental funds:

General Fund - The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Food Service Fund - The Food Service Fund is used to account for the recordings of transactions relative to breakfast and lunch of the School District.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventory of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,000 and any asset susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Buses and other vehicles	8 years
Furniture and equipment	5-20 years

Compensated Absences - The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Defined Benefit Plan - For purposes of measuring the net pension and other postemployment benefit liability, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits and pension and other postemployment benefits expense, information about the fiduciary net position of the Michigan Public School Employees Retirement Systems (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. 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.

Fund Equity - The fund balance classifications are reported on the extent to which a government is bound to observe constraints imposed on the use of the resources in governmental funds. The fund balances are classified as nonspendable, restricted, committed, assigned and unassigned.

Nonspendable fund balance represents amounts that are not in a spendable form. The School District's nonspendable fund balance represents inventories and prepaid expenditures. In the fund financial statements, governmental funds report restrictions on fund balances for amounts that are legally restricted by outside parties for a specific purpose. Committed fund balance represents funds formally set aside by the School District for a particular purpose. The use of committed funds would be approved by the Board of Education through the budget process or official board action.

Assigned fund balance would represent tentative management plans that are subject to change which at the present time the School District does not have any assigned fund balance. The School District's intent would be to spend uncommitted/unassigned funds prior to the use of committed funds. When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

Deferred Outflows and Inflows of Resources

Deferred outflows - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. For district-wide financial statements, the School District reports deferred outflows of resources related to pensions and other postemployment benefits. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension and other postemployment benefits liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. The School District also reported deferred outflows of resources for pension and other postemployment benefits contributions made after the measurement date. This amount will reduce the net pension liability in the following year.

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows - In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue arises only under a modified accrual basis of accounting. Accordingly, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from receipts that are received after 60 days of year end. These amounts are deferred and recognized as inflow of resources in the period that the amounts become available. For district-wide financial statements, the School District reports deferred inflows of resources related to pensions and other postemployment benefits. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension and other postemployment benefits expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. Deferred inflows of resources also includes revenue received relating to Section 147c state aid deferred to offset the deferred outflows related to Section 147c pension contributions subsequent to the measurement period.

Use of Estimates - The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Property taxes - For the taxpayers of the School District, properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1. The final collection date is February 28, after which uncollected taxes are added to the County delinquent tax rolls.

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State Aid - For the fiscal year ended June 30, 2018, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2018, the foundation allowance was based on the average pupil membership counts taken in February of 2017 and September 2017.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2017 - August 2018. The local revenue is recognized as outlined in Note 1. Amounts receivable from the State of Michigan at June 30, 2018 relating to state aid is \$465,597.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Events Occurring After Reporting Date

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying Independent Auditor's Report, which is the date the financial statements were available to be issued.

NOTE 2 - BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of school districts prior to the expenditure of monies in a fiscal year.

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 2 - BUDGETS (CONTINUED)

Mio AuSable Schools follow these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board of Education a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board of Education throughout the year. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end and therefore cancels all encumbrances. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund and Food Service Fund are presented as Required Supplemental Information.

Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the General Fund and Food Service Fund are noted in the required supplementary information section.

NOTE 3 - CASH AND INVESTMENTS

Some statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and Investments	\$ 539,418	\$ 113,903	\$ 653,321

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 168,650
Investment in interlocal agreement investment pools (i.e. MILAF) with a weighted average maturity of 1 day	484,671
Total	\$ 653,321

The School District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. Two of the pooled investment funds utilized by the School District are the Michigan investment Liquid Assets Fund Cash Mgmt Class and Max Class (MILAF). These are external pooled investment funds of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2018, the fair value of the School District's investments is the same as the value of the pool shares.

MILAF Cash Mgmt Class and Max Class funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. The MILAF (Max Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

Interest Rate Risk

In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2018, the School District's investment in the investment pool was rated AAA by Standard & Poor's.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2018, \$520,773 of the School District's bank balance of \$694,650 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The balance of the sweep accounts was used to purchase short-term federal debt securities.

Fair Value Measurement

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

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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

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

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

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

The School District does not have any investments subject to the fair value measurement.

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 4 - CAPITAL ASSETS

A summary of changes in governmental capital assets follows:

	Balance June 30, 2017	Additions	Disposals	Balance June 30, 2018
Capital assets being depreciated:				
Land improvements	\$ 933,703	\$ 0	\$ 0	\$ 933,703
Buildings and improvements	7,664,195	114,000	0	7,778,195
Buses and other vehicles	1,187,368	160,952	(617,779)	730,541
Furniture and equipment	820,409	0	(237,766)	582,643
Subtotal	10,605,675	274,952	(855,545)	10,025,082
Accumulated depreciation:				
Land improvements	924,469	575	0	925,044
Building and improvements	3,624,202	180,378	0	3,804,580
Buses and other vehicles	892,820	91,317	(617,779)	366,358
Furniture and equipment	677,426	24,748	(236,966)	465,208
Subtotal	6,118,917	297,018	(854,745)	5,561,190
Net capital assets being depreciated	4,486,758	(22,066)	(800)	4,463,892
Net capital assets	\$ 4,486,758	\$ (22,066)	\$ (800)	\$ 4,463,892

Depreciation expense for fiscal year ended June 30, 2018 was \$297,018. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A summary of interfund receivable and payable balances at June 30, 2018 are as follows:

		Payables			
		General Fund	School Lunch	2013 Capital Projects Fund	Total
Receivables	General Fund	\$ 0	\$ 88,188	\$ 1,659	\$ 89,847
	Debt Service	18,581	0	0	18,581
	Total	\$ 18,581	\$ 88,188	\$ 1,659	\$ 108,428

A summary of interfund transfers made during the year ended June 30, 2018 are as follows:

		<u>Transfers Out</u>
		<u>School Lunch</u>
Transfers In	General	\$ 10,000

These interfund receivable and payable balances resulted from the time lag between the dates that: (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2018 consist of accounts (fees), intergovernmental grants and interest.

A summary of the intergovernmental receivables (due from other governmental units) follows:

State aid and grants	\$ 465,597
Federal grants	82,702
	\$ 548,299

NOTE 7 - UNEARNED REVENUE

Governmental funds report unearned revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also reflect unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, grant and categorical aid payments received prior to meeting all eligibility requirements amounted to \$51,965.

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 8 - LONG-TERM DEBT

The following is a summary of governmental long-term obligations for the School District for the year ended June 30, 2018:

	Balance <u>June 30, 2017</u>	<u>Additions</u>	Retirements and Payments	Balance <u>June 30, 2018</u>	Amount Due Within One Year
Bonds	\$ 1,345,000	\$ 0	\$ 210,000	\$ 1,135,000	\$ 215,000
Bond premium	57,887	0	9,648	48,239	0
Installment purchase	156,000	0	26,000	130,000	26,000
Compensated absences	118,186	0	29,723	88,463	0
	<u>\$ 1,677,073</u>	<u>\$ 0</u>	<u>\$ 275,371</u>	<u>\$ 1,401,702</u>	<u>\$ 241,000</u>

Bonds payable at June 30, 2018 is comprised of the following issues:

\$2,080,000, 2013 School Improvement bond due in annual installments of \$165,000 to \$240,000 through May 1, 2023; interest at 2.00% to 3.00%	<u>\$ 1,135,000</u>
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Compensated absences include unused sick pay and vacation pay. Unused sick pay is calculated using the daily rate for eligible employees times the number of unused days. Vacation payouts are computed using an average daily rate using 220 days. At June 30, 2018, the amount of \$88,463 has been recorded in the district-wide financial statements.

The School District has a installment note payable resulting from the purchase of three School buses. The balance of the loan of \$156,000 is due in annual principal installments of \$26,000 through April 23, 2023 with interest at 2.00%.

The annual requirements to amortize bonds outstanding as of June 30, 2018, including interest payments are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 215,000	\$ 28,575	\$ 243,575
2020	220,000	24,275	244,275
2021	225,000	19,875	244,875
2022	235,000	14,250	249,250
2023	240,000	7,200	247,200
	<u>\$ 1,135,000</u>	<u>\$ 94,175</u>	<u>\$ 1,229,175</u>

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 9 - RISK MANAGEMENT

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

The SET-SEG shared-risk pool program in which the School 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.

NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

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. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/mpsers-cafr>.

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

Benefits Provided - Overall

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

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

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

Benefits Provided - Pension

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

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

Pension Reform 2010

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

Pension Reform 2012

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

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

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

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

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

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

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

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

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

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

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

Pension Reform of 2017

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

Benefits Provided – Other postemployment benefit (OPEB)

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

Retiree Healthcare Reform of 2012

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

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

Regular Retirement (no reduction factor for age)

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

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

Member Contributions

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

Employer Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

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

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

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

	<u>Pension</u>	<u>Other postemployment benefit</u>
October 1, 2016 - September 30, 2017	15.27% - 19.03%	5.69% - 5.91%
October 1, 2017 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%

The School District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately \$859,000, with \$797,000 specifically for the Defined Benefit Plan.

The School District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total. OPEB benefits were approximately \$218,000, with \$210,000 specifically for the Defined Benefit Plan.

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

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

Pension Liabilities

At June 30, 2018, the School District reported a liability of \$8,536,152 for its proportionate share of the 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 date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the School District's proportion was 0.03294 and 0.03283 percent.

MPERS (Plan) Net Pension Liability - As of September 30, 2017:

MPERS (Plan) Non-University Employers:	September 30, 2017	September 30, 2016
Total Pension Liability	\$ 73,501,296,000	\$ 67,917,445,000
Plan Fiduciary Net Position	\$ 47,011,783,000	\$ 42,968,263,000
Net Pension Liability	\$ 26,489,513,000	\$ 24,949,182,000
Proportionate share	0.03294 %	0.03283 %
Net Pension liability for the School District	\$ 8,536,152	\$ 8,190,806

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

For the year ended June 30, 2018, the School District recognized pension expense of approximately \$568,000.

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Differences between expected and actual experience	\$ 74,185	\$ (41,885)
Net difference between projected and actual earnings on pension plan investments	0	(408,084)
Changes in assumptions	935,203	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	28,277	(182,822)
Unearned revenue related to pension portion of section 147 c	0	(341,616)
Reporting Unit contributions subsequent to the measurement date	<u>689,290</u>	<u>0</u>
Total	<u>\$ 1,726,955</u>	<u>\$ (974,407)</u>

\$689,290, reported as deferred outflows of resources related to pensions resulting from School District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

Year Ended June 30	<u>Amount</u>
2019	\$ 83,678
2020	233,632
2021	102,594
2022	(15,030)
	<u>\$ 404,874</u>

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

OPEB Liabilities

At June 30, 2018, the School District reported a liability of \$2,912,618 for its proportionate share of the 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 date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The School District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the School District's proportion was 0.03289 and 0.03289 percent.

MPSERS (Plan) Non-University Employers:	September 30, 2017
Total OPEB Liability	\$ 14,175,547,000
Plan Fiduciary Net Position	\$ 5,177,775,000
Net OPEB Liability	\$ 8,997,772,000
Proportionate share	0.03289 %
Net OPEB liability for the School District	\$ 2,912,618

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

For the year ended June 30, 2018, the School District recognized OPEB expense of approximately \$106,000.

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Difference between expected and actual experience	\$ 0	\$ (31,011)
Net difference between projected and actual plan investment	0	(67,457)
Changes in proportion and differences between employer contributions and proportionate share of contributions	163	0
School District's contributions subsequent to the measurement date	<u>157,915</u>	<u>0</u>
Total	<u>\$ 158,078</u>	<u>\$ (98,468)</u>

\$157,915, reported as deferred outflows of resources related to OPEB resulting from School District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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	<u>Amount</u>
2019	\$ (23,759)
2020	(23,759)
2021	(23,759)
2022	(23,759)
2023	(3,269)
	<u>\$ (98,305)</u>

Actuarial Assumptions

Investment rate of return for Pension - 7.5% a year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus plan).

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

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

Inflation - 3.0%

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

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

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

Cost of Living Pension Adjustments – 3.0% annual non-compounded for MIP members

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

Additional assumptions for other postemployment benefit only – Applies to individuals hired before September 4, 2012:

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

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

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

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

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

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

Pension Discount rate - The discount rate used to measure the total pension liability was 7.5% (7% for Pension Plus Plan). This discount rate was based on the long-term rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

Sensitivity 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 Pension Plus 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 than the current rate:

	Pension		
	1% Decrease (6.5-6.0%)	Discount Rate (7.5-7.0%)	1% Increase (8.5-8.0%)
School District's proportionate share of the net pension liability	<u>\$11,119,766</u>	<u>\$8,536,152</u>	<u>\$6,360,913</u>

Sensitivity 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 Reporting Unit's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Other postemployment benefit		
	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
School District's proportionate share of the net other postemployment benefit liability	<u>\$3,411,517</u>	<u>\$2,912,618</u>	<u>\$2,489,208</u>

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(CONTINUED)

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

	Other postemployment benefit		
1% Decrease (6.5% decreasing to 2.5%)	Healthcare cost trend rates (7.5% decreasing to 3.5%)	1% Increase (8.5% decreasing to 4.5%)	
School District's proportionate share of the net OPEB liability	<u>\$2,466,596</u>	<u>\$2,912,618</u>	<u>\$3,419,044</u>

Pension and OPEB Plan Fiduciary Net Position

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

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

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

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 11 - GRANTS

The School District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the School District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. Based on prior experience, the School District administration believes such disallowance, if any, would be immaterial.

NOTE 12 - ECONOMIC DEPENDENCY

The School District received approximately 47% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

NOTE 13 - BOND AND SINKING FUND COMPLIANCE

The 2004 Capital Projects Fund records capital project activities for the Sinking Fund millage. The assets, liabilities, revenues and expenditures are included in the School District's basic financial statements for the year ended June 30, 2018.

For this fund, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

NOTE 14 - NEW ACCOUNTING STANDARDS

For the year ended June 30, 2018, the School District implemented the following new pronouncements:

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

Summary:

GASB Statement No. 75 requires governments that participate in defined benefit other post-employment benefit (OPEB) plans to report in the statement of net position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The Statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 14 - NEW ACCOUNTING STANDARDS (CONTINUED)

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

	Governmental activities
Net position (deficit) as previously stated, July 1, 2017	\$ (4,253,762)
Adoption of GASB Statement 75:	
Net other postemployment benefit liability	(3,072,167)
Deferred outflows	208,925
Deferred inflows	(92,656)
	(2,955,898)
Net position as restated, July 1, 2017	\$ (7,209,660)

NOTE 15 - TAX ABATEMENTS

Effective for the year ended June 30, 2017 the School District is required to disclose significant tax abatements as required by GASB statement 77 (Tax abatements).

The School District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions, Brownfield Redevelopment Agreements, and Payments in Lieu of Taxes (PILOT) granted by cities, villages and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield Redevelopment Agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties; PILOT programs apply to multiple unit housing for citizens of low income and the elderly.

The taxes abated for the General Fund operating millage is considered by the State of Michigan when determining the School District's section 22 funding of the State School Aid Act.

There are no significant abatements made by the School District.

MIO AUSABLE SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE 16 - UPCOMING ACCOUNTING PRONOUNCEMENT

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

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

MIO AUSABLE SCHOOLS
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Local Sources	\$ 2,316,296	\$ 2,239,081	\$ 2,400,163	\$ 161,082
State sources	2,490,177	2,583,976	2,541,445	(42,531)
Federal sources	606,487	552,604	405,424	(147,180)
Interdistrict and other sources	27,333	27,338	17,338	(10,000)
Total revenues	<u>5,440,293</u>	<u>5,402,999</u>	<u>5,364,370</u>	<u>(38,629)</u>
<u>Expenditures</u>				
Instruction:				
Basic programs	2,641,214	2,755,810	2,904,326	(148,516)
Added needs	912,219	801,021	681,501	119,520
Support services:				
Pupil	46,686	51,014	58,083	(7,069)
Instructional staff	60,359	30,008	79,555	(49,547)
General administrative	266,129	269,278	253,912	15,366
School administrative	359,904	398,226	417,452	(19,226)
Business services	47,100	8,325	8,692	(367)
Operations and maintenance	482,550	491,248	520,562	(29,314)
Transportation	238,238	219,713	411,277	(191,564)
Information services	114,550	113,316	132,059	(18,743)
Community services	0	0	864	(864)
Athletics	36,500	47,430	43,483	3,947
Debt service	27,000	28,860	28,860	0
Total expenditures	<u>5,232,449</u>	<u>5,214,249</u>	<u>5,540,626</u>	<u>(326,377)</u>
Excess (deficiency) of revenues over expenditures	<u>207,844</u>	<u>188,750</u>	<u>(176,256)</u>	<u>(365,006)</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	0	0	10,000	10,000
Payments to other governmental units	(285,255)	(242,931)	(245,931)	(3,000)
Total other financing sources (uses)	<u>(285,255)</u>	<u>(242,931)</u>	<u>(235,931)</u>	<u>7,000</u>
Net change in fund balance	(77,411)	(54,181)	(412,187)	(358,006)
Fund balance - beginning of year	<u>519,753</u>	<u>519,753</u>	<u>519,753</u>	<u>0</u>
Fund balance - end of year	<u>\$ 442,342</u>	<u>\$ 465,572</u>	<u>\$ 107,566</u>	<u>\$ (358,006)</u>

MIO AUSABLE SCHOOLS
Required Supplemental Information
Budgetary Comparison Schedule - Food Service Fund
For the Year Ended June 30, 2018

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Local sources	\$ 48,000	\$ 43,133	\$ 50,838	\$ 7,705
State sources	8,500	11,823	15,063	3,240
Federal sources	200,000	210,740	232,205	21,465
Other sources	2,026	1,213	0	(1,213)
Total revenues	<u>258,526</u>	<u>266,909</u>	<u>298,106</u>	<u>31,197</u>
<u>Expenditures</u>				
Food services	<u>271,266</u>	<u>285,370</u>	<u>300,593</u>	<u>(15,223)</u>
Excess (deficiency) of revenues over expenditures	<u>(12,740)</u>	<u>(18,461)</u>	<u>(2,487)</u>	<u>15,974</u>
<u>Other Financing Sources (Uses)</u>				
Transfer out	<u>0</u>	<u>0</u>	<u>(10,000)</u>	<u>(10,000)</u>
Net change in fund balance	(12,740)	(18,461)	(12,487)	5,974
Fund balance - beginning of year	<u>40,209</u>	<u>40,209</u>	<u>40,209</u>	<u>0</u>
Fund balance - end of year	<u>\$ 27,469</u>	<u>\$ 21,748</u>	<u>\$ 27,722</u>	<u>\$ 5,974</u>

MIO AUSABLE SCHOOLS
Required Supplemental Information
Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.03294 %	0.03283 %	0.03381 %	0.03434 %
Reporting unit's proportionate share of net pension liability	\$ 8,536,152	\$ 8,190,806	\$ 8,257,371	\$ 7,563,300
Reporting unit's covered-employee payroll*	\$ 2,777,606	\$ 2,730,531	\$ 2,800,193	\$ 2,687,177
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	32.53932 %	33.33654 %	33.91144 %	35.52916 %
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	64.21000 %	63.17000 %	62.92000 %	66.15000 %

* The employer's covered payroll is defined by GASB 82, *Pension Issues - an amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 68 in 2015, the 10 year history will be provided prospectively until a full 10 year history is shown.

MIO AUSABLE SCHOOLS
Required Supplemental Information
Schedule of the Reporting Unit's Pension Contributions
Michigan Public School Employees Retirement Plan
Last 10 Reporting Unit Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 796,713	\$ 776,262	\$ 741,171	\$ 659,448
Contributions in relation to statutorily required contributions*	<u>796,713</u>	<u>776,262</u>	<u>741,171</u>	<u>659,448</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Reporting unit's covered-employee payroll**	\$ 2,648,261	\$ 2,867,184	\$ 2,773,836	\$ 2,813,903
Contributions as a percentage of covered-employee payroll	30.08 %	27.07 %	26.72 %	23.44 %

* Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

** The employer's covered payroll is defined by GASB 82, *Pension Issues - an amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based. For non-university employers, covered payroll for both pensions and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 68 in 2015, the 10 year history will be provided prospectively until a full 10 year history is shown.

MIO AUSABLE SCHOOLS
Required Supplemental Information
Schedule of the Reporting Unit's Proportionate Share of the Net OPEB Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	<u>2017</u>
Reporting unit's proportion of net OPEB liability (%)	0.03289 %
Reporting unit's proportionate share of net OPEB liability	\$ 2,912,618
Reporting unit's covered-employee payroll*	\$ 2,777,606
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	95.36458 %
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)	36.39000 %

* The employer's covered payroll is defined by GASB 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 75 in 2018, the 10 year history will be provided prospectively until a full 10 year history is shown.

MIO AUSABLE SCHOOLS
Required Supplemental Information
Schedule of the Reporting Unit's OPEB Contributions
Michigan Public School Employees Retirement Plan
Last 10 Reporting Unit Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2018</u>
Statutorily required contributions	\$ 210,206
Contributions in relation to statutorily required contributions*	<u>210,206</u>
Contribution deficiency (excess)	<u>\$ 0</u>
Reporting unit's covered-employee payroll**	\$ 2,648,261
Contributions as a percentage of covered-employee payroll	7.94 %

* Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

** The employer's covered payroll is defined by GASB 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 75 in 2018, the 10 year history will be provided prospectively until a full 10 year history is shown.

MIO AUSABLE SCHOOLS
Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Changes of benefit terms: There were no changes of benefit terms in 2018.

Changes of assumptions: Assumption changes are a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

MIO AUSABLE SCHOOLS
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>			
	<u>2013 Debt</u>	<u>2013</u>	<u>2005</u>	<u>2004 Sinking Fund</u>	<u>Total</u>
<u>Assets</u>					
Cash and investments	\$ 38,332	\$ 1,675	\$ 154	\$ 136	\$ 40,297
Receivables - net:					
Due from other funds	18,581	0	0	0	18,581
Total assets	<u>\$ 56,913</u>	<u>\$ 1,675</u>	<u>\$ 154</u>	<u>\$ 136</u>	<u>\$ 58,878</u>
<u>Liabilities and Fund Balance</u>					
<u>Liabilities</u>					
Due to other funds	\$ 0	\$ 1,659	\$ 0	\$ 0	\$ 1,659
<u>Fund Balance</u>					
Restricted for debt service	56,913	0	0	0	56,913
Restricted for capital projects	0	16	154	136	306
Total fund balance	<u>56,913</u>	<u>16</u>	<u>154</u>	<u>136</u>	<u>57,219</u>
Total liabilities and fund balance	<u>\$ 56,913</u>	<u>\$ 1,675</u>	<u>\$ 154</u>	<u>\$ 136</u>	<u>\$ 58,878</u>

MIO AUSABLE SCHOOLS
Other Supplemental Information
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2018

	Debt Service Fund	Capital Projects Fund			Total
	2013 Debt	2013	2005	2004 Sinking Fund	
<u>Revenues</u>					
Local sources					
Property taxes	\$ 229,432	\$ 0	\$ 0	\$ 0	\$ 229,432
Other local sources	1,954	20	108	2	2,084
Total revenues	<u>231,386</u>	<u>20</u>	<u>108</u>	<u>2</u>	<u>231,516</u>
<u>Expenditures</u>					
Current:					
Debt service:					
Principal	210,000	0	0	0	210,000
Interest and other	32,925	0	0	0	32,925
Capital outlay	0	1,659	18,490	0	20,149
Total expenditures	<u>242,925</u>	<u>1,659</u>	<u>18,490</u>	<u>0</u>	<u>263,074</u>
Net change in fund balance	(11,539)	(1,639)	(18,382)	2	(31,558)
Fund balance - beginning of year	68,452	1,655	18,536	134	88,777
Fund balance - end of year	<u>\$ 56,913</u>	<u>\$ 16</u>	<u>\$ 154</u>	<u>\$ 136</u>	<u>\$ 57,219</u>

MIO AUSABLE SCHOOLS
Other Supplemental Information
Schedule of Bonded Indebtedness - 2013 School Improvement Bond
For the Year Ended June 30, 2018

<u>PURPOSE</u>	The bonds were issued for the purpose of improvements to existing school facilities		
<u>DATE OF ISSUE</u>	June 27, 2013		
<u>INTEREST PAYABLE</u>	November 1 and May 1 of each year		
<u>AMOUNT OF ISSUE</u>			\$ 2,080,000
<u>AMOUNT OF REDEEMED</u>			
	During prior years	\$ 735,000	
	During current years	<u>210,000</u>	<u>945,000</u>
<u>BALANCE OUTSTANDING - June 30, 2018</u>			<u>\$ 1,135,000</u>

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	2.00%	\$ 215,000	\$ 28,575	\$ 243,575
2020	2.00%	220,000	24,275	244,275
2021	2.00%	225,000	19,875	244,875
2022	2.00%	235,000	14,250	249,250
2023	2.50%	<u>240,000</u>	<u>7,200</u>	<u>247,200</u>
		<u>\$ 1,135,000</u>	<u>\$ 94,175</u>	<u>\$ 1,229,175</u>



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

October 25, 2018

Board of Education
Mio AuSable Schools
Mio, Michigan

We have audited, in accordance with U.S. generally accepted auditing standards 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 Mio AuSable Schools (School District), as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise Mio AuSable Schools' basic financial statements and have issued our report thereon dated October 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mio AuSable Schools' 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 Mio AuSable Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Mio AuSable Schools' 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses, 2018-002 and 2018-003.



Board of Education
Mio AuSable Schools
October 25, 2018

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mio AuSable Schools' 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item: 2018-001.

Response to Findings

Mio AuSable Schools' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Mio AuSable Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Weinlander Fitzhugh

MIO AUSABLE SCHOOLS
Schedule of Findings and Responses
For the Year Ended June 30, 2018

2018-001 (Repeat Finding 2017-002)

Criteria or Specific Requirement

The State of Michigan requires the Michigan School Districts to maintain appropriate controls over expenditures so that disbursements do not exceed budgeted amounts.

Condition

The School District incurred unfavorable variances in a number of its General Fund and Food Service Fund expenditure accounts. These variances resulted in a violation of the Uniform Accounting and Budgeting Act Michigan Public Act of 1978 (Act).

Context

Internal controls should be in place to appropriately monitor actual expenditures to budget amounts to ensure that disbursements were within the final approved budget.

Effect

The effect of this condition results in multiple unfavorable budget variances.

Cause

The School District did not appropriately monitor actual expenditures to budget amounts to ensure that disbursements were within the final approved budget.

Recommendation

We recommend the School District should implement measures to enhance its monitoring of its financial activity and amend its budgets when necessary, in accordance with requirements of the Act.

Views of the Responsible Officials and Planned Corrective Action

The School District will strive to better monitor budget to actual expenditures. In addition, the COOR business staff will seek professional development to gain a better understanding of best budgeting practices and maintaining budget to actual expenditures. Refer to our corrective action plan for additional information.

MIO AUSABLE SCHOOLS
Schedule of Findings and Responses
For the Year Ended June 30, 2018

2018-002 (Repeat Finding 2017-003)

Criteria or Specific Requirement

Establishment and maintenance of internal control over the financial reporting process.

Condition

The School District did not complete timely bank reconciliations for the entire fiscal year.

Context

The finding is a result of observation and inquiry with School District administration.

Effect

The effect of this condition is that there is a reasonable possibility that a material misstatement of the School District's financial statement could occur without being prevented or detected and corrected on a timely basis.

Cause

The cause is the result of inadequate monitoring of financial activities during the fiscal year.

Recommendation

The School District should review internal controls and implement necessary procedures to ensure that bank reconciliations are prepared on a timely basis after each month-end, and implement procedures to monitor financial activities of the School District throughout the fiscal year.

Views of the Responsible Officials and Planned Corrective Action

The School District understands the importance of month-end bank reconciliations and will monitor and implement timely bank reconciliations. In addition, COOR ISD is working to resolve the man-power issues, which will result in more business service time devoted to the School District, and training in the new software (SDS) to insure bank reconciliations are completed.

MIO AUSABLE SCHOOLS
Schedule of Findings and Responses
For the Year Ended June 30, 2018

2018-003 (Repeat Finding 2017-004)

Criteria or Specific Requirement

During the course of the audit, we identified several misstatements, some of which were material to the School District's financial statements, and provided audit entries to correct these misstatements. Material audit adjustments were required to correct cash, interfund balances and accounts payable liability account.

Condition

Auditor identified material misstatements.

Context

The finding is a result of observation and inquiry with School District administration.

Effect

Budget variances and violations could occur due to inaccurate records. Material misstatements of the School District's financial statements could go undetected.

Cause

The cause is the School District's personnel do not monitor the financial records to ensure that all transactions were properly recorded in the financial statements in accordance with GAAP.

Recommendation

The School District's personnel should review the audit entries, understand why they were necessary, and implement controls to ensure that the accounts and transactions affected are reviewed closely during the year and especially at year end.

Views of the Responsible Officials and Planned Corrective Action

Procedures will be implemented to ensure that transactions are recorded on a timely basis. The School District will implement a month-end checklist that will be followed and completed each month.

MIO AUSABLE SCHOOLS
Schedule of Prior Year Findings
For the Year Ended June 30, 2018

2017-002, 003 and 004

Audit Finding

All audit findings listed above are repeat findings in the current year.

Corrective Action Taken

Corrective action plans were not implemented properly.

2017-001

Audit Finding

Due to the complexity of certain aspects of the fund accounting, the government-wide financial statements in accordance with GASB 34 and the related note disclosures, the School District relies on auditor involvement to report in accordance with U.S. generally accepted accounting principles.

Corrective Action Taken

The School District contracted an individual with years of school experience to oversee and mentor staff on governmental accounting. The individual has the competency to understand and accept responsibility for the financial statements.

2017-005

Audit Finding

The School District did not have proper controls over the software conversion that took place on January 1, 2017.

Corrective Action Taken

COOR ISD completed additional training on the new software and has a better understanding of how the new software works. COOR ISD will continue training in order to be more efficient with the software.



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

October 25, 2018

Board of Education
Mio AuSable Schools
Mio, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Mio AuSable Schools (School District) for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under U.S. generally accepted auditing standards and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 9, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Mio AuSable Schools are described in Note 1 to the financial statements. During 2018, the School District implemented Governmental Accounting Standard Board No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The application of existing policies was not changed during 2018. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the School District' financial statements was (were):

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

Management's estimate of depreciation is based on the estimated useful life of fixed assets. We evaluated the key factors and assumptions used to develop the estimated useful life of fixed assets in determining that depreciation is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.



Board of Education
Mio AuSable Schools
October 25, 2018
Page 2

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management: cash, internal funds and accounts payable liability account.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 25, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Mio AuSable Schools's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

Other Matters

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



Board of Education
Mio AuSable Schools
October 25, 2018
Page 3

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

A separate management letter was not issued.

Restriction on Use

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

Very truly yours

Weinlander Fitzhugh

PAUL CISKE
SUPERINTENDENT, ELEM. PRINCIPAL

JEANNETTE MCVEIGH
ADMINISTRATIVE ASSISTANT

DENNIS J. NILES
MS/HS PRINCIPAL

Mio AuSable Schools

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RICK EBERT, TRUSTEE
AMY FULLERTON, TRUSTEE
LIZZ HOLZWARH, TRUSTEE

MIO AUSABLE SCHOOLS CORRECTIVE ACTION PLAN June 30, 2018

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	We will strive to better monitor budget to actual expenditures. In addition, the COOR business staff will seek professional development to gain a better understanding of best budgeting practices and maintaining budget to actual expenditures.	June 30, 2019	Paul Ciske, Superintendent
2018-002	We understand the importance of month-end bank reconciliations and will monitor and implement timely bank reconciliations. In addition, C.O.O.R. ISD is working to resolve the man-power issues, which will result in more business service time devoted to the School District, and training in the new software (SDS) to insure bank reconciliations are completed	June 30, 2019	Paul Ciske, Superintendent
2018-003	Procedures will be implemented to ensure that transactions are recorded on a timely basis. We will implement a month-end checklist that will be followed and completed each month.	June 30, 2019	Paul Ciske, Superintendent