MORENCI AREA SCHOOLS

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional supplementary information)

YEAR ENDED JUNE 30, 2018

Maner Costerisan
Certified Public Accountants
Business & Technology Advisors

C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Morenci Area Schools

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 Morenci Area Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Morenci Area Schools' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 Morenci Area Schools as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 13 to the financial statements, Morenci Area Schools implemented Governmental Accounting Standards Board Statement 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

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morenci Area Schools' basic financial statements. The additional supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The additional supplementary 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated September 25, 2018 in our consideration of Morenci Area Schools' 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 Morenci Area Schools' 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 Morenci Area Schools' internal control over financial reporting and compliance.

Maner Costerisan PC

September 25, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Morenci Area Schools (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplementary and additional information that presents all the District's revenue and expenditures by program.

For the year ended June 30, 2018, Morenci Area Schools 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.

FINANCIAL HIGHLIGHTS

Reporting the School District as a Whole - District-wide Financial Statements

One of the most important questions asked about the District is, "As a whole, what is the District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the District's financial statements, report information about the District as a whole and its activities in a way that helps answer this question. We prepare these statements to include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position. In order to measure the District's financial health or net position, we examine the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources, as reported in the statement of net position. Over time, increases or decreases in the District's net position, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results.

It is important to remember that the School District's goal is to provide the best educational opportunities and services possible to Morenci students and not to generate profits as commercial entities do. In keeping, the District must account for the long term stability and continuation of the District by weighing expenditures against the ability to continue existence. The District must keep in check significant decreases in net position over time.

The statement of net position and statement of activities report the governmental activities for the School District, which encompass all of the District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Our financial statements provide insights into the results of this year's operations.

- The liabilities and deferred inflows of resources of the District exceeded its assets and deferred outflows of resources, at the close of the most recent fiscal year by ($10,230,848) (*net position*).

- The District's total net position increased by $134,689 from the June 30, 2017 restated balance of ($10,365,537).

- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $1,004,579, a decrease of $227,450 in comparison with the prior year.

- At the end of the current fiscal year, the aggregated fund balance for the District's operating fund (general fund) was $750,952 or 11.1% of the total revenues of this operating fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

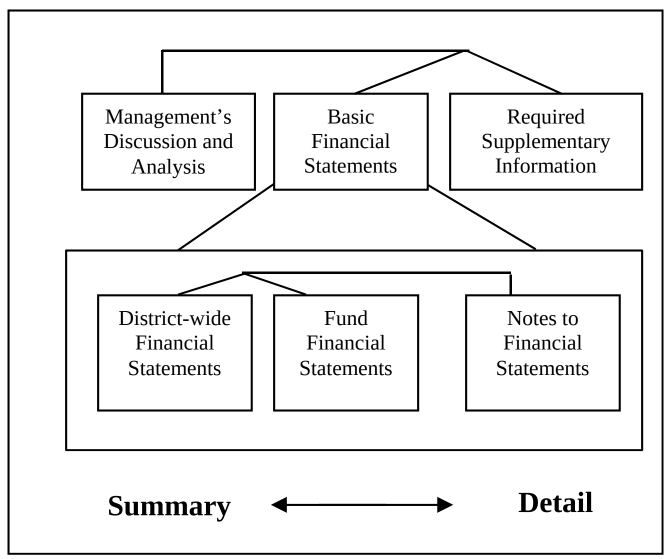
- The first two statements are *District-wide financial statements* that provide both *short-term* and *long-term* information about the District's overall financial status.

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

- The *governmental fund* statements tell how basic services like instruction and support services were financed in the short-term as well as what remains for future spending.

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

Figure A-1
Organization of Morenci Area Schools' Annual Financial Report



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2
Major Features of District-wide and Fund Financial Statements

		Fund financial statements	
	District-wide statements	Governmental funds	Fiduciary funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resource focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Morenci's funds do not currently contain capital assets, although they can
Type of inflow-outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when good or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net position include all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report the District's net position and how they have changed. Net position - the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources - is one way to measure the District's financial health or position.

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

- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities:

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes (like repaying debt, and its capital projects fund) or to show that it is properly using certain revenues (like food service).

The District has two kinds of funds:

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

- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position - The District's combined net position as of June 30, 2018 totaled ($10,230,848) which was an increase over the June 30, 2017 restated balance of ($10,365,537).

Table A-3
Morenci Area Schools

	2018	2017
Current and other assets	$ 1,857,207	$ 2,352,323
Capital assets	11,621,617	12,055,568
Total assets	13,478,824	14,407,891
Deferred outflows	2,650,545	1,715,533
Long-term liabilities	11,781,897	12,484,580
Other liabilities	866,229	1,157,088
Net pension liability	9,234,520	9,157,557
Net other postemployment benefits liability	3,174,259	-
Total liabilities	25,056,905	22,799,225
Deferred inflows	1,303,312	499,776
Net position:		
Net investment in capital assets	150,356	43,894
Restricted for debt service	16,453	169,182
Unrestricted	(10,397,657)	(7,388,653)
Total net position	$(10,230,848)	$ (7,175,577)

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

Table A-4
Changes in Morenci Area Schools' Net Position

	2018	2017
Revenues:		
Program revenues:		
Charges for services	$ 145,087	$ 158,794
Operating grants	1,642,304	1,528,881
General revenues:		
Property taxes	1,368,072	1,342,743
Investment earnings	104	117
State aid - unrestricted	4,589,890	4,426,461
Intermediate sources	355,881	305,161
Other	76,506	60,315
Total revenues	8,177,844	7,822,472
Expenses:		
Instruction	4,518,549	4,315,568
Support services	2,649,768	2,559,010
Community services	-	180
Intergovernmental	47,705	48,983
Food services	416,462	443,855
Interest on long-term debt	410,671	344,641
Total expenses	8,043,155	7,712,237
Change in net position	$ 134,689	$ 110,235

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

District Governmental Activities

The District’s financial condition has come about through a number of areas.

- Proposal A established the student foundation grant concept. The foundation grant has increased from $4,762 per student in 1995 to $7,631 per student in 2018.
- Student growth in the District has decreased. In fiscal year 1999 state aid membership was 1,147 and in 19 years has decreased by 42.3% to 662. Morenci Area Schools does participate in School of Choice and Open Enrollment to attract new students to the District.
- Many of the District’s employees have been part of a total compensation method of determining their wage and benefit package, which has allowed the District’s total compensation to generally keep pace with the decrease in District revenues.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District as a whole has a combined fund balance of $1,004,579 compared to $1,232,029 in 2017. The fund balance decreased by $227,450 during the year. Aside from spending the remaining 2013 capital projects funds, the District was able to control costs even with an increase in revenue, primarily due to tight budgetary controls. There are debt service funds with a combined net fund balance of $72,123, and a special revenue fund with a net fund balance of $181,504. The general fund increased its fund balance by $67,261, debt service funds decreased their fund balance by $172,734, 2013 capital projects fund decreased by $167,015 and the special revenue fund increased by $45,038.

The general fund's yearly revenues were about 1.0% more than expenditures and operating transfers.

General Fund and Budget Highlights

During the 2018 fiscal year the original budget was amended two times to reflect changes which affected the District.

The District's initial amendments took place in December. This amendment included the adjustments for the fall student count as well as staffing changes that were implemented for the remaining 2017-2018 school year. Student enrollment was originally budgeted at 650 students and increased slightly to 661 students for the fall count. This coupled with the increase in the per pupil foundation allowance caused state revenues to increase from the original budget. The December amendment also saw increases in expenditures for basic programs and added needs. The increase to basic programs and added needs were the result of increased state and federal program funds.

A second and final amended budget was made on June 18, 2018. The amendments were from actual revenue and expenditures through June which showed increases in many functions of the general fund budget from the December amendment. The final amended budget indicated increases to basic programs, added needs, pupil services, and transportation. State and federal funds carried over from the 2016-2017 school year were fully expended in 2017-2018. Once again, the district carried over state and federal program funds from the 2017-2018 school year into 2018-2019 school year as planned. The general fund savings recognized, in the final amendment, to actual were from purchases that were budgeted but not made during the 2017-2018 school year.

The District closely monitors enrollment, as it has a direct impact on the general fund budget throughout the school year. While the District realized an increase in students with the October 2017 fall count of 661, the February 2018 spring count showed a decrease of students to 654. This decrease in students was monitored through the end of year enrollment reports as well. As a result of student enrollment decreases, the District projected a budget consistent with 650 students for the 2018-2019 school year.

The final amended budget was to have revenues and other financing sources exceed expenditures and other financing uses by $25,000. The final results showed that revenues came in $59,492 less than were anticipated. Expenditures came in $101,753 less than budgeted in June. The general fund savings recognized in the final amendment to actual were from purchases that were budgeted but not made during the 2017-2018 school year. The net result after other financing sources and (uses) was a change in fund balance of $67,261 increasing the total fund balance to $750,952.

Overall, the difference between the District's final amended budget and end of the year figures amounted to a $42,261 variance. General fund revenues came within 0.87% of final budget. General fund expenditures came within 1.5% of final budgeted amounts. Once again this year, tight budgetary controls allowed the District to maintain the rising costs in-line with increasing revenue sources. The staff continues to be effective in maintaining actual expenditures when compared to budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets are as follows:

Table A-5
Morenci Area Schools

	2018			2017
	Cost	Accumulated depreciation	Net book value	Net book value
Land	$ 351,668	$ -	$ 351,668	$ 351,668
Land improvements	255,164	41,496	213,668	226,426
Buildings and improvements	16,121,561	6,171,263	9,950,298	10,264,780
Furniture and fixtures	4,706,559	3,892,853	813,706	983,507
Transportation equipment	913,577	621,300	292,277	229,187
Total	$ 22,348,529	$ 10,726,912	$ 11,621,617	$ 12,055,568

The change in the net book value is due to depreciation outpacing capital asset additions during the year.

LONG-TERM DEBT

At year end the District had $11,781,897 in long-term debt outstanding as shown in Table A-6. More detailed information is available in Note 6 to the financial statements.

During the year ended June 30, 2018, the District made principal payments in the amount of $780,000.

A decrease in compensated absences of $6,562 was also recorded. The District also borrowed an additional $81,615 from the School Loan Revolving Fund. The School Loan Revolving Fund had interest outstanding of $92,198 at June 30, 2018.

Table A-6
Morenci Area Schools
Outstanding Long-Term Debt

	2018	2017
General obligation bonds and other debt	$ 10,701,305	$ 11,508,669
School loan revolving fund	1,037,729	926,486
Compensated absences	42,863	49,425
	$ 11,781,897	$ 12,484,580

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District is expected to receive a foundation allowance of $7,871 per student for the 2018-2019 school year. This is an increase of $240 from the 2017-2018 school year.

- MPSERS cost offset at the 2017-2018 level.

- Morenci Area School District made the following significant financial and curriculum gains during the 2017-2018 fiscal year:

  The District utilized state and federal carryover funds to increase remediation and acceleration of the core curriculum in classrooms; expand Response to Intervention Service for K-12 students; increase tutoring and summer school; increase pupil support services by adding a full time counselor, full time behavior interventionist, and full time social worker for the 2017-2018 school year. The District also maintained the One-to-One Initiative to include grades K-12. In doing so, the District made significant technology infrastructure improvements during the 2017-2018 fiscal year to strengthen our commitment to technology advancements for our students and to increase levels of security.

  The middle school, grades 5-8, continues to be a STREAM (Science, Technology, Reading, English, Arts, Mathematics) building, making Morenci the first in the county to move full curriculum to a math and science concentration. This is the first phase to help implement Customize Learning and prepare students for jobs of the future. Redirection of state and federal revenue funds, combined with countless staff hours, have helped facilitate this transition during the 2017-2018 school year and into the 2018-2019 school year.

  The District continues to adhere to the two collective bargaining agreements with the Michigan Education Association. The Teachers' Contract saw the most significant changes with an 8% reduction in wages from the 2015-2016 salary schedule. While the Contract dictated that there would be an additional 3% reduction with the decline of students below 679, the Board of Education did not implement this reduction for the 2016-2017 and 2017-2018 school years. The teachers' concessions, combined with a District-wide effort to save financial resources has positioned the district to be in the strongest financial position since the start of the recession. The District is currently in negotiations with the Michigan Education Association since the current agreement expired on 8/31/2018.

  In addition to forgoing the additional 3% salary reduction that could have taken place due to declining student enrollment, the Board of Education took action to return an off schedule payment of $1,500 for all full time employees and $500 for all part time employees. This one-time payment was made on February 28, 2018, and was also done in good faith and in recognition of everyone's combined efforts to help the District increase financial stability.

- Retirement rates have been estimated based upon the FY 2018-2019 employer contribution rate for the rate effective October 1, 2018.

- The District partnered with the City of Morenci and the Stair District Library to offer increased levels of summer school and summer recreation to students. This was a joint collaboration between Morenci Area Schools, the City of Morenci, and the Stair District Library to help students combat the summer slide and keep students involved in structured activities outside the classroom. The District also participated in the Summer Meals Program for the first time this summer. With over 60% of students on Free and Reduced Breakfast and Lunch, there is a need to provide meals for students. The combined approach was intendent to exemplify the District and City's moto "One Team, One Town, One Family!"

- The District received official notification on July 2, 2018, from the State of Michigan, Department of Education, that the District obtained successful completion of the Fiscal On Site Review. The Fiscal On Site Review included a review of the District's Policies and Procedures, Cash Management, Payroll Expenditures, Budget, Final Expenditure Verification, Purchased Services, and Equipment. There were no deficiencies in any of the before mentioned categories.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Morenci Area Schools, 788 E Coomer St, Morenci, MI 49256.

BASIC FINANCIAL STATEMENTS

MORENCI AREA SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental activities
ASSETS:	
Cash and cash equivalents	$ 449,267
Receivables:	
Intergovernmental	1,364,443
Inventories	6,139
Prepaids	37,358
Capital assets not being depreciated	351,668
Capital assets, net of accumulated depreciation	11,269,949
TOTAL ASSETS	13,478,824
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred charge on refunding, net of amortization	175,575
Related to pensions	2,224,015
Related to other postemployment benefits	250,955
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,650,545
LIABILITIES:	
Accounts payable	129,511
Notes payable	53,825
Accrued interest	59,049
Accrued salaries and related items	347,497
Accrued retirement	150,486
Unearned revenue	125,861
Noncurrent liabilities:	
Due within one year	813,573
Due in more than one year	10,968,324
Net pension liability	9,234,520
Net other postemployment benefits liability	3,174,259
TOTAL LIABILITIES	25,056,905
DEFERRED INFLOWS OF RESOURCES:	
Related to pensions	829,751
Related to other postemployment benefits	107,314
Related to state aid funding for pension	366,247
TOTAL DEFERRED INFLOWS OF RESOURCES	1,303,312
NET POSITION:	
Net investment in capital assets	150,356
Restricted for debt service	16,453
Unrestricted	(10,397,657)
TOTAL NET POSITION	$ (10,230,848)

See notes to financial statements.

MORENCI AREA SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Functions/programs	Expenses	Program revenues: Charges for services	Program revenues: Operating grants	Governmental activities: Net (expense) revenue and changes in net position
Governmental activities:				
Instruction	$ 4,518,549	$ -	$ 1,062,705	$ (3,455,844)
Support services	2,649,768	38,468	222,110	(2,389,190)
Intergovernmental	47,705	-	-	(47,705)
Food services	416,462	106,619	357,489	47,646
Interest on long-term debt	410,671	-	-	(410,671)
Total governmental activities	$ 8,043,155	$ 145,087	$ 1,642,304	(6,255,764)
General revenues:				
Property taxes, levied for general purposes				435,619
Property taxes, levied for debt service				932,453
State sources				4,589,890
Intermediate sources				355,881
Investment earnings				104
Other				76,506
Total general revenues				6,390,453
CHANGE IN NET POSITION				134,689
NET POSITION, beginning of year, as restated				(10,365,537)
NET POSITION, end of year				$ (10,230,848)

See notes to financial statements.

MORENCI AREA SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General fund	Special revenue fund - food service	Debt service fund - 2017 refunding	Total nonmajor funds	Total governmental funds
ASSETS:					
Cash and cash equivalents	$ 188,670	$ 188,474	$ -	$ 72,123	$ 449,267
Receivables:					
Due from other funds	-	9,463	-	-	9,463
Intergovernmental	1,364,443	-	-	-	1,364,443
Inventories	-	6,139	-	-	6,139
Prepaid expenditures	37,358	-	-	-	37,358
TOTAL ASSETS	$ 1,590,471	$ 204,076	$ -	$ 72,123	$ 1,866,670
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES:					
Payables:					
Accounts payable	$ 127,873	$ 1,638	$ -	$ -	$ 129,511
Due to other funds	9,463	-	-	-	9,463
Notes payable	53,825	-	-	-	53,825
Accrued interest	3,379	-	-	-	3,379
Accrued salaries and related items	335,276	12,221	-	-	347,497
Accrued retirement	144,994	5,492	-	-	150,486
Unearned revenue	122,640	3,221	-	-	125,861
TOTAL LIABILITIES	797,450	22,572	-	-	820,022
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenue	42,069	-	-	-	42,069
FUND BALANCES:					
Nonspendable:					
Inventories	-	6,139	-	-	6,139
Prepaid expenditures	37,358	-	-	-	37,358

See notes to financial statements.

	General fund	Special revenue fund - food service	Debt service fund - 2017 refunding	Total nonmajor funds	Total governmental funds
FUND BALANCES (Concluded):					
Restricted for:					
Debt service	$ -	$ -	$ -	$ 72,123	$ 72,123
Food service	-	175,365	-	-	175,365
Unassigned	713,594	-	-	-	713,594
TOTAL FUND BALANCES	750,952	181,504	-	72,123	1,004,579
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 1,590,471	$ 204,076	$ -	$ 72,123	$ 1,866,670
Total governmental fund balances					$ 1,004,579
Amounts reported for governmental activities in the statement of net position are different because:					
Deferred charge on refunding, net of amortization				$ 175,575	
Deferred outflows of resources - related to pensions				2,224,015	
Deferred inflows of resources - related to pensions				(829,751)	
Deferred outflows of resources - related to other postemployment benefits				250,955	
Deferred inflows of resources - related to other post employment benefits				(107,314)	
Deferred inflows of resources - related to state funding for pension				(366,247)	
					1,347,233
Capital assets used in governmental activities are not financial resources and are not reported in the funds:					
The cost of the capital assets is				22,289,057	
Accumulated depreciation is				(10,667,440)	
					11,621,617
Revenue not recorded in the funds due to not being collected until after September 1st:					
Unavailable revenue - special education claims					42,069
Long-term liabilities are not due and payable in the current period and are not reported in the funds:					
Long-term debt obligation					(11,739,034)
Compensated absences					(42,863)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid					(55,670)
Net pension liability					(9,234,520)
Net other postemployment benefits liability					(3,174,259)
Net position of governmental activities					$ (10,230,848)

See notes to financial statements.

MORENCI AREA SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	General fund	Special revenue fund - food service	Debt service fund - 2017 refunding	Total nonmajor funds	Total governmental funds
REVENUES:					
Local sources:					
Property taxes	$ 435,619	$ -	$ 711,945	$ 220,508	$ 1,368,072
Food sales	-	106,605	-	-	106,605
Investment earnings	58	14	-	51	123
Other	112,169	-	-	-	112,169
Total local sources	547,846	106,619	711,945	220,559	1,586,969
State sources	5,648,060	32,533	-	-	5,680,593
Federal sources	206,402	324,956	-	-	531,358
Intermediate school districts	352,693	-	-	-	352,693
Total revenues	6,755,001	464,108	711,945	220,559	8,151,613
EXPENDITURES:					
Current:					
Instruction	4,085,894	-	-	-	4,085,894
Supporting services	2,552,959	-	-	-	2,552,959
Food service activities	-	417,770	-	167,018	584,788
Intergovernmental	47,705	-	-	-	47,705

See notes to financial statements.

	General fund	Special revenue fund - food service	Debt service fund - 2017 refunding	Total nonmajor funds	Total governmental funds
EXPENDITURES (Concluded):					
Debt service:					
Principal repayment	$ -	$ -	$ 605,000	$ 175,000	$ 780,000
Interest	3,982	-	301,740	104,369	410,091
Other	-	-	344	397	741
Capital outlay	-	1,300	-	-	1,300
Total expenditures	6,690,540	419,070	907,084	446,784	8,463,478
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	64,461	45,038	(195,139)	(226,225)	(311,865)
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	32,584	-	32,584
Transfers out	-	-	-	(32,584)	(32,584)
Proceeds from school loan revolving fund	-	-	62,392	19,223	81,615
Proceeds from sale of capital asset	2,800	-	-	-	2,800
Total other financing sources (uses)	2,800	-	94,976	(13,361)	84,415
NET CHANGE IN FUND BALANCES	67,261	45,038	(100,163)	(239,586)	(227,450)
FUND BALANCES:					
Beginning of year	683,691	136,466	100,163	311,709	1,232,029
End of year	$ 750,952	$ 181,504	$ -	$ 72,123	$ 1,004,579

See notes to financial statements.

MORENCI AREA SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Net change in fund balances total governmental funds	$	(227,450)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense		(650,686)
Capital outlay		216,735
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:		
Accrued interest payable, beginning of the year		75,675
Accrued interest payable, end of the year		(55,670)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:		
Proceeds from school loan revolving fund		(81,615)
Interest on school loan revolving fund		(29,628)
Payments on debt		780,000
Amortization of bond premiums		29,328
Amortization of bond discounts		(1,964)
Amortization of deferred charge on refunding		(18,321)
Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:		
Unavailable revenue, beginning of year		(38,881)
Unavailable revenue, end of year		42,069
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:		
Accrued compensated absences, beginning of the year		49,425
Accrued compensated absences, end of the year		(42,863)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:		
Pension related items		13,766
Other postemployment benefits items		54,526
Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension and other post employment benefits contributions subsequent to the measurement period:		
State aid funding, beginning of year		386,490
State aid funding, end of year		(366,247)
Change in net position of governmental activities	$	134,689

See notes to financial statements.

MORENCI AREA SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2018

	Agency fund
ASSETS:	
Cash and cash equivalents	$ 84,334
LIABILITIES:	
Due to student and other groups	$ 84,334

See notes to financial statements.

MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-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 District. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

B. Reporting Entity

The Morenci Area Schools (the "District") is governed by the Morenci Area Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

C. Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

D. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Continued)

The District reports the following major governmental funds:

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

The *food service fund* is a special revenue fund that accounts for federal, state, and local sources that are legally restricted to expenditures for providing meals to District students and faculty.

The *2017 refunding debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt used to refund the 2005 and 2008 general obligation bonds.

Other Nonmajor Funds

The *2013 capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The capital projects fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the Revised School Code.

Beginning with the year of bond issuance, the District has reported the annual construction activity in the capital projects fund. The projects for which the 2013 Serial Bonds were issued were completed as of June 30, 2018 and the cumulative expenditures recognized for the construction period were as follows.

The following is a summary of the revenue and expenditures for the capital projects bond activity since inception:

	2013 Capital projects
Revenue and other financing sources	$ 2,962,962
Expenditures and other financing uses	$ 2,962,962

Revenue and other financing sources for the 2013 capital projects include the net bond proceeds of $2,960,000.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Concluded)

Other Nonmajor Funds (Concluded)

The *2008* and *2013 building and site debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources.* The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Continued)

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are generally 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide 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 current year ended, the foundation allowance was based on pupil membership counts.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

The 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 governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measurable and available only when cash is received by the District.

F. Budgetary Information

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

2. Public hearings are conducted to obtain taxpayer comments.

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. 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 are noted in the required supplementary information section.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information (Concluded)

4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2018. The District does not consider these amendments to be significant.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and cash equivalents

   The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of 3 months or less from the date of acquisition.

2. Investments

   Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity.

   State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

3. Inventories and prepaid items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital assets

Capital assets, which include property, plant, equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of 2 years. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

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

Land and construction in progress, if any, are not depreciated. The other property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

	Years
Land improvements	20
Building and additions	20 - 50
Equipment and furniture	5 - 20
Transportation equipment	5 - 10

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

5. Defined benefit plans

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

6. 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. The District has three items that qualify for reporting in this category. They are the deferred charge on refunding and pension and other postemployment benefits related items reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred outflow is recognized for pension and other postemployment benefit related items. These amounts are expensed in the plan year in which they apply.

7. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

7. Deferred inflows (Concluded)

The District has four items that qualifies for reporting in this category. The first is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension benefit contributions subsequent to the measurement period. The second and third items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary. The fourth item arises only under a modified accrual basis of accounting. Accordingly, the item, 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.

8. Net position flow assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

In the computation of net invested in capital assets, school bond revolving fund principal proceeds of $945,531 are considered capital-related debt. Accrued interest on the school bond loan fund of $92,198 has been included in the balance of long-term debt and in the calculation of unrestricted net position.

9. Fund balance flow assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before any of the components of unrestricted fund balance. When the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Concluded)

10. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the District that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

H. Revenues and Expenditures/Expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

H. Revenues and Expenditures/Expenses (Concluded)

2. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2018, the District levied the following amounts per $1,000 of assessed valuation:

Fund	Mills
General fund:	
Non-Principal Residence Exemption (PRE)	18.00
Commercial Personal Property	6.00
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property	7.96

3. Compensated absences

The District's contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations, or retirements.

4. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 2 - DEPOSITS AND INVESTMENTS

As of June 30, 2018, the District had no investments.

Interest rate risk. In accordance with its investment policy, the 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, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

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).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2018, $469,878 of the District's bank balance of $719,878 was exposed to custodial credit risk because it was uninsured. The carrying balance was $533,601.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)

Fair value measurement. The 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:

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

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

The above amounts as previously reported in Note 2:

Deposits - including fiduciary funds of $84,334	$ 533,601

Deposits are reported in the financial statements as follows:

Fiduciary fund:	
Cash and cash equivalents	$ 84,334
District-wide:	
Current assets:	
Cash and cash equivalents	449,267
	$ 533,601

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2018 consist of the following:

	Government-wide
State aid	$ 994,630
Federal revenue	182,266
Intermediate school district	187,547
	$ 1,364,443

Intergovernmental receivables include amounts due from federal, state and local sources for various projects and programs.

Because of the District's favorable collection experience, no allowance for doubtful accounts has been recorded.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Assets not being depreciated:				
Land	$ 351,668	$ -	$ -	$ 351,668
Other capital assets:				
Land improvements	255,164	-	-	255,164
Building and additions	16,121,561	-	-	16,121,561
Equipment and furniture	4,620,469	86,090	-	4,706,559
Transportation equipment	753,196	130,645	(29,736)	913,577
Subtotal	21,750,390	216,735	(29,736)	21,996,861
Accumulated depreciation:				
Land improvements	28,738	12,758	-	41,496
Building and additions	5,856,781	314,482	-	6,171,263
Equipment and furniture	3,636,962	255,891	-	3,892,853
Transportation equipment	524,009	67,555	(29,736)	621,300
Total accumulated depreciation	10,046,490	650,686	(29,736)	10,726,912
Net capital assets being depreciated	11,703,900	(433,951)	-	11,269,949
Net governmental capital assets	$ 12,055,568	$ (433,951)	$ -	$ 11,621,617

NOTE 4 - CAPITAL ASSETS (Concluded)

Depreciation for the fiscal year ended June 30, 2018 amounted to $650,686 which was allocated in the following manner:

Instruction	$ 539,502
Support services	111,184
	$ 650,686

NOTE 5 - NOTE PAYABLE - STATE AID ANTICIPATION NOTE

At June 30, 2018, the District issued a state aid anticipation note payable in the amount of $400,000 (Note 2017 A-1). The note bears an interest rate of 1.27%, and matures July 20, 2018. Proceeds of the note were used to fund school operations. Note 2017 A-1 requires payments to an irrevocable set-aside account of $346,175 at June 30, 2018. At year-end the balance of these payments are considered defeased debt and are not included in the year-end balance. The note is secured by the full faith and credit of the District as well as pledged state aid.

Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
$ 306,569	$ 400,000	$ 652,744	$ 53,825

NOTE 6 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

	General obligation bonds (including deferred charges and discounts)	School loan revolving fund	Compensated absences	Total
Balance July 1, 2017	$ 11,508,669	$ 926,486	$ 49,425	$ 12,484,580
Additions	-	111,243	-	111,243
Deletions	(807,364)	-	(6,562)	(813,926)
Balance June 30, 2018	10,701,305	1,037,729	42,863	11,781,897
Due within one year	(805,000)	-	(8,573)	(813,573)
Due in more than one year	$ 9,896,305	$ 1,037,729	$ 34,290	$ 10,968,324

NOTE 6 - LONG-TERM DEBT (Continued)

Long-term obligation debt at June 30, 2018 is comprised of the following:

2013 serial bonds due in annual installments of $105,000 to $250,000 through May 1, 2033 with interest from 3.00% to 4.50%.	$ 2,595,000
2017 serial bonds due in annual installments of $700,000 to $870,000 through May 1, 2028 with interest of 3.00%.	7,855,000
Add issuance premiums	283,501
Less issuance discounts	(32,196)
Total bonded debt and other long-term obligations	10,701,305
Borrowings from the State of Michigan under the School Loan Revolving Fund. Interest at June 30, 2018 was 3.10%.	1,037,729
Compensated absences	42,863
Total general long-term debt	$ 11,781,897

Interest expense (all funds) for the year ended June 30, 2018 was approximately $411,000.

Borrowing from the State of Michigan - The school loan revolving fund payable represents notes payable to the State of Michigan for loans made to the School District, as authorized by the State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest rates of 3.10% for the School Loan Revolving Fund notes have been assessed for the year ended June 30, 2018. Repayment is required when the millage rate necessary to cover the annual bonded debt services falls below 7.00 mills. The School District is required to levy 7.00 mills and repay to the state any excess of the amount levied over the bonded debt service requirements. The District currently levies 7.96 debt mills. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the school district, no provision for repayment has been included in the following amortization schedule.

In prior years, the District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2018, $15,010,000 of bonds outstanding are considered defeased.

NOTE 6 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term debt outstanding as of June 30, 2018, including interest of $2,313,310 are as follows:

Year ending June 30,	Principal	Interest	Total
2019	$ 805,000	$ 334,018	$ 1,139,018
2020	830,000	309,868	1,139,868
2021	855,000	284,968	1,139,968
2022	880,000	259,318	1,139,318
2023	905,000	232,918	1,137,918
2024 - 2028	4,975,000	732,662	5,707,662
2029 - 2033	1,200,000	159,558	1,359,558
	10,450,000	2,313,310	12,763,310
Issuance premiums	283,501	-	283,501
Issuance discounts	(32,196)	-	(32,196)
School Loan Revolving Fund	1,037,729	-	1,037,729
Compensated absences	42,863	-	42,863
	$ 11,781,897	$ 2,313,310	$ 14,095,207

At June 30, 2018, fund balance of $72,123 is available in the debt service funds to service the general obligation debt.

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances at June 30, 2018 are as follows:

Receivable fund		Payable fund	
Food service	$ 9,463	General fund	$ 9,463

The outstanding balances between funds result mainly 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 systems, and (3) payments between funds are made.

NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (System) 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/ors schools.

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

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.

NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Benefits Provided - Overall

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

Plan name	Plan Type	Plan status
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

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 Plan 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 (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus Plan member. Pension Plus Plan 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 Plan members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus Plan members.

NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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:

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 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 transient 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% person 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.

NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Pension Reform 2012 (Concluded)

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 work 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.

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 Plan) 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.

NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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.

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.

NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Regular Retirement (no reduction factor for age) (Concluded)

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 Postemployment 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.

School districts' 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:

	Pension	Other postemployment benefit
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%

NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Employer Contributions (Concluded)

The District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately $970,000 with $939,000 specifically for the Defined Benefit Plan.

The District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total. OPEB benefits were approximately $290,000, with $266,000 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).

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

Pension Liabilities

At June 30, 2018, the District reported a liability of $9,234,520 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 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 District's proportion was 0.03563% and 0.03670%.

MPSERS (Plan) Non-university employers:	September 30, 2017	September 30, 2016
Total pension liability	$ 72,407,218,688	$ 67,917,445,078
Plan fiduciary net position	$ 46,492,967,573	$ 42,968,263,308
Net pension liability	$ 25,914,251,115	$ 24,949,181,770
Proportionate share	0.03563%	0.03670%
Net pension liability for the District	$ 9,234,520	$ 9,157,557

NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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

For the year ended June 30, 2018, the District recognized pension expense of $925,528.

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

	Deferred outflows of resources	Deferred inflows of resources
Changes of assumptions	$ 1,011,715	$ -
Net difference between projected and actual plan investment earnings	-	(441,471)
Differences between expected and actual experience	80,254	(45,312)
Changes in proportion and differences between employer contributions and proportionate share of contributions	229,256	(342,968)
Reporting Unit's contributions subsequent to the measurement date	902,790	-
	$ 2,224,015	$ (829,751)

$902,790, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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 September 30,	Amount
2018	$ 186,401
2019	304,093
2020	49,911
2021	(48,931)

NOTE 8 - RETIREMENT AND POST RETIREMENT 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 District reported a liability of $3,174,259 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 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, the District's proportion was 0.03585%.

MPSERS (Plan) Non-university employers:	September 30, 2017
Total other postemployment benefit liability	$ 13,920,945,991
Plan fiduciary net position	$ 5,065,474,948
Net other postemployment benefit liability	$ 8,855,471,043
Proportionate share	0.03585%
Net other postemployment benefit liability for the District	$ 3,174,259

NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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

For the year ended June 30, 2018, the District recognized OPEB expense of $211,753.

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

	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual plan investment earnings	$ -	$ (73,517)
Differences between expected and actual experience	-	(33,797)
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,013	-
Reporting Unit's contributions subsequent to the measurement date	249,942	-
	$ 250,955	$ (107,314)

$249,942, reported as deferred outflows of resources related to OPEB resulting from 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,	Amount
2018	$ (25,705)
2019	(25,705)
2020	(25,705)
2021	(25,705)
2022	(3,481)

NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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.

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 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 the September 30, 2014 valuation.

The long-term expected rate of return on pension and other postemployment benefit plan investments - The pension 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.

NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Actuarial Assumptions (Continued)

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

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)%
	100.00%	

* Long term rates 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% (7.0% 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 plan members 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.

NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Actuarial Assumptions (Continued)

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 project to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net pension liability to changes in the discount rate - The following presents the Reporting Unit’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 Reporting Unit’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%)
Reporting Unit's proportionate share of the net pension liability	$ 12,029,508	$ 9,234,520	$ 6,881,318

Sensitivity of the net OPEB liability to changes in the discount rate -The following presents the Reporting Unit’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%)
Reporting Unit's proportionate share of the net other postemployment benefit liability	$ 3,717,974	$ 3,174,259	$ 2,712,814

NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Concluded)

Actuarial Assumptions (Concluded)

Sensitivity to the net OPEB liability to changes in the healthcare cost trend rates - The following presents the Reporting Unit'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 Reporting Unit'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%)
Reporting Unit's proportionate share of the net other postemployment benefit liability	$ 2,688,170	$ 3,174,259	$ 3,726,178

Pension and OPEB Plan Fiduciary Net Position

Detailed information about the pension and OPEB'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 separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers, and the contributions due from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL).

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.

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of $500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

NOTE 10 - TRANSFERS

The 2013 debt service fund transferred $29,790 to the 2017 debt service fund to allocate tax revenue to across debt service funds to cover 2017 - 2018 principal and interest requirements. Additionally, the 2008 debt service fund transferred $2,794 to the 2017 debt service fund. The transfer from the 2008 debt service fund was to permanently close the fund in the current fiscal year.

NOTE 11 - TAX ABATEMENTS

The District receives reduced property tax revenues as a result of Industrial Facilities Tax (IFT) exemptions and the Commercial Rehabilitation Act granted by cities, villages and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities. The Commercial Rehabilitation Act offers owners of certain rehabilitated commercial facilities in certain districts property tax abatement for up to 10 years. The property taxes abated for all funds by municipality under these programs are as follows:

Municipality	Type	Taxes abated
City of Morenci	IFT	$ 17,342
City of Morenci	Commercial Rehabilitation	1,454
		$ 18,796

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

There are no significant abatements made by the District.

NOTE 12 - SUBSEQUENT EVENT

The District has approved borrowing $400,000 for fiscal year 2019 to replace the note payable as described in Note 5.

NOTE 13 - NEW ACCOUNTING STANDARD

For the year ended June 30, 2018, the District implemented the following new pronouncement: 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 postemployment 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.

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

	Governmental activities
Net postion as previously stated July 1, 2017	$ (7,175,577)
Adoption of GASB Statement 75:	
Net other postemployment benefit liability	(3,348,140)
Deferred outflows	262,996
Deferred inflows	(104,816)
Net postion as restated July 1, 2017	$ (10,365,537)

NOTE 14 - UPCOMING ACCOUNTING PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and will be effective for the 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. 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 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.

REQUIRED SUPPLEMENTARY INFORMATION

MORENCI AREA SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2018

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	$ 492,887	$ 545,622	$ 547,846	$ 2,224
State sources	5,384,410	5,721,466	5,648,060	(73,406)
Federal sources	179,355	225,222	206,402	(18,820)
Intermediate school districts	314,000	322,183	352,693	30,510
Total revenues	6,370,652	6,814,493	6,755,001	(59,492)
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	3,044,907	3,213,246	3,214,289	(1,043)
Added needs	765,655	952,261	871,605	80,656
Total instruction	3,810,562	4,165,507	4,085,894	79,613
Supporting services:				
Pupil	99,492	158,053	153,305	4,748
Instructional staff	34,547	15,132	13,782	1,350
General administration	177,290	155,778	153,403	2,375
School administration	431,460	435,306	414,563	20,743
Business	174,502	213,347	211,831	1,516
Operation/maintenance	878,995	897,320	920,239	(22,919)
Pupil transportation	313,625	388,216	381,575	6,641
Athletics	222,400	228,779	226,092	2,687
Other	59,779	90,076	78,169	11,907
Total supporting services	2,392,090	2,582,007	2,552,959	29,048
Intergovernmental expenditures	80,000	40,797	47,705	(6,908)
Debt service:				
Interest	8,000	3,982	3,982	-
Total expenditures	6,290,652	6,792,293	6,690,540	101,753
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	80,000	22,200	64,461	42,261
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of capital assets	-	2,800	2,800	-
NET CHANGE IN FUND BALANCE	$ 80,000	$ 25,000	67,261	$ 42,261
FUND BALANCE:				
Beginning of year			683,691	
End of year			$ 750,952	

MORENCI AREA SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2018

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources:				
Food sales	$ 115,610	$ 105,801	$ 106,605	$ 804
Investment earnings	10	14	14	-
State sources	29,800	29,169	32,533	3,364
Federal sources	303,269	326,955	324,956	(1,999)
Total revenues	448,689	461,939	464,108	2,169
EXPENDITURES:				
Current:				
Supporting services:				
Salaries	126,870	131,832	132,129	(297)
Benefits	66,361	64,570	65,505	(935)
Contracted services	4,000	5,621	6,760	(1,139)
Supplies and other	10,189	8,083	5,122	2,961
Food	230,269	200,731	165,435	35,296
Non-food	16,000	13,299	42,819	(29,520)
Capital outlay	15,000	1,300	1,300	-
Total expenditures	468,689	425,436	419,070	6,366
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(20,000)	36,503	45,038	8,535
OTHER FINANCING SOURCES (USES):				
Transfers in	5,000	-	-	-
NET CHANGE IN FUND BALANCE	$ (15,000)	$ 36,503	45,038	$ 8,535
FUND BALANCE:				
Beginning of year			136,466	
End of year			$ 181,504	

MORENCI AREA SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF PLAN YEAR ENDED SEPTEMBER 30)

	2017	2016	2015	2014
Reporting Unit's proportion of net pension liability (%)	0.03563%	0.03670%	0.03772%	0.03506%
Reporting Unit's proportionate share of net pension liability	$ 9,234,520	$ 9,157,557	$ 9,214,239	$ 7,723,408
Reporting Unit's covered-employee payroll	$ 2,977,878	$ 3,088,870	$ 3,205,512	$ 3,298,462
Reporting Unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	310.10%	296.47%	287.45%	234.15%
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	64.21%	63.27%	63.17%	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

MORENCI AREA SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF THE YEAR ENDED JUNE 30)

	2018	2017	2016	2015
Statutorily required contributions	$ 939,294	$ 793,769	$ 793,074	$ 668,890
Contributions in relation to statutorily required contributions	939,294	793,769	793,074	668,890
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Reporting Unit's covered-employee payroll	$3,245,085	$3,099,358	$ 3,179,014	$3,533,562
Contributions as a percentage of covered-employee payroll	28.95%	25.61%	24.95%	18.93%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

MORENCI AREA SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF PLAN YEAR ENDED SEPTEMBER 30)

	2017
Reporting Unit's proportion of net OPEB liability (%)	0.03585%
Reporting Unit's proportionate share of net OPEB liability	$ 3,174,259
Reporting Unit's covered-employee payroll	$ 2,977,878
Reporting Unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	106.59%
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)	36.39%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

MORENCI AREA SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S OPEB CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF THE YEAR ENDED JUNE 30)

	2018
Statutorily required contributions	$ 266,279
Contributions in relation to statutorily required contributions	266,279
Contribution deficiency (excess)	$ -
Reporting Unit's covered-employee payroll	$ 3,245,085
Contributions as a percentage of covered-employee payroll	8.21%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

MORENCI AREA SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018

Changes of benefit terms: There were no changes of benefit terms in the plan year ended September 30, 2017.

Changes of assumptions: There were no changes of benefit assumptions in the plan year ended September 30, 2017.

ADDITIONAL SUPPLEMENTARY INFORMATION

MORENCI AREA SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2018

	2013 capital projects fund	2008 Building and site bonds	2013 Building and site bonds	Total nonmajor funds
ASSETS:				
Cash and cash equivalents	$ -	$ -	$ 72,123	$ 72,123
FUND BALANCES:				
Restricted for debt service	$ -	$ -	$ 72,123	$ 72,123

MORENCI AREA SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2018

	2013 capital projects fund	2008 Building and site bonds	2013 Building and site bonds	Total nonmajor funds
REVENUES:				
Local sources:				
Property taxes	$ -	$ 61,566	$ 158,942	$ 220,508
Investment earnings	3	-	48	51
Total revenues	3	61,566	158,990	220,559
EXPENDITURES:				
Current:				
Capital outlay	167,018	-	-	167,018
Debt service:				
Principal repayment	-	75,000	100,000	175,000
Interest	-	3,000	101,369	104,369
Other expenses	-	125	272	397
Total expenditures	167,018	78,125	201,641	446,784
EXCESS (DEFICIENC)Y OF REVENUES OVER (UNDER) EXPENDITURES	(167,015)	(16,559)	(42,651)	(226,225)
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(2,794)	(29,790)	(32,584)
Proceeds from school loan revolving fund	-	5,367	13,856	19,223
Total other financing sources (uses)	-	2,573	(15,934)	(13,361)
NET CHANGE IN FUND BALANCES	(167,015)	(13,986)	(58,585)	(239,586)
FUND BALANCES:				
Beginning of year	167,015	13,986	130,708	311,709
End of year	$ -	$ -	$ 72,123	$ 72,123

MORENCI AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
JUNE 30, 2018

$2,960,000 School Building and Site Bonds issued in 2013:

	Interest due		Debt service requirement for fiscal year	
Principal due May 1,	May 1,	November 1,	June 30,	Amount
$ 105,000	$ 49,184	$ 49,184	2019	$ 203,368
110,000	47,609	47,609	2020	205,218
120,000	45,959	45,959	2021	211,918
130,000	44,159	44,159	2022	218,318
135,000	42,209	42,209	2023	219,418
145,000	40,184	40,184	2024	225,368
155,000	37,828	37,828	2025	230,656
155,000	35,213	35,213	2026	225,426
155,000	32,403	32,403	2027	219,806
185,000	29,303	29,303	2028	243,606
225,000	25,603	25,603	2029	276,206
225,000	21,047	21,047	2030	267,094
250,000	16,406	16,406	2031	282,812
250,000	11,093	11,093	2032	272,186
250,000	5,630	5,630	2033	261,260
$ 2,595,000	$ 483,830	$ 483,830		$ 3,562,660

The bonds were approved by the Board of Education to be used for the purpose of partially remodeling, furnishing and refurnishing, equipping and re-equipping school facilities; acquiring, installing and equipping educational technology; purchasing school buses; constructing, equipping, developing and improving athletic facilities and play fields; and developing and improving sites. The bonds will carry interest rates from 3.00% to 4.50%.

MORENCI AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
JUNE 30, 2018

$8,460,000 Refunding Bonds issued in 2017:

Principal due May 1,	Interest due May 1,	Interest due November 1,	Debt service requirement for fiscal year June 30,	Debt service requirement for fiscal year Amount
$ 700,000	$ 117,825	$ 117,825	2019	$ 935,650
720,000	107,325	107,325	2020	934,650
735,000	96,525	96,525	2021	928,050
750,000	85,500	85,500	2022	921,000
770,000	74,250	74,250	2023	918,500
790,000	62,700	62,700	2024	915,400
810,000	50,850	50,850	2025	911,700
840,000	38,700	38,700	2026	917,400
870,000	26,100	26,100	2027	922,200
870,000	13,050	13,050	2028	896,100
$ 7,855,000	$ 672,825	$ 672,825		$ 9,200,650

The bonds were approved by the Board of Education to be used for the purpose of refunding all or a portion of the District's outstanding 2005 refunding bonds and 2008 building and site bonds. The bonds will carry an interest rate of 3.00%.

MORENCI AREA SCHOOLS
SCHEDULE OF BORROWINGS - STATE OF MICHIGAN
SCHOOL LOAN REVOLVING FUND
JUNE 30, 2018

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Loan Revolving Program. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from the State under this program have been summarized as follows:

Year ended June 30,	Loan proceeds	Interest expense	Loan balance (net change)
2013	$ 92,137	$ 2,027	$ 94,164
2014	-	3,325	3,325
2015	343,120	9,826	352,946
2016	276,245	20,350	296,595
2017	152,414	27,042	179,456
2018	81,615	29,628	111,243
Totals	$ 945,531	$ 92,198	$ 1,037,729

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

To the Board of Education
Morenci Area Schools

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morenci Area Schools as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Morenci Area Schools' basic financial statements and have issued our report thereon dated September 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Morenci Area 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 the Morenci Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Morenci Area 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morenci Area 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Maner Costerisan PC

September 25, 2018

Significant Audit Findings

1. Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Morenci Area Schools are described in Note 1 to the financial statements. During 2018 the District implemented Governmental Accounting Standard 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 District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 estimates affecting the financial statements were:

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

The estimated liabilities are approximately $9,235,000 and $3,174,000, respectively. We evaluated the key factors and assumptions used to develop the balance of the net pension liability and net OPEB liability in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate in calculating the liability for employee compensated absences:

The estimated liability is approximately $43,000. We evaluated the key factors and assumptions used to develop the balance of employee compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's determination of the estimated life span of the capital assets:

We evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole. In addition, certain amounts included in capital assets have been estimated based on an outside appraisal company.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

We did not identify any sensitive disclosures.

2. Difficulties Encountered in Performing the Audit

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

3. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

4. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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.

5. Management Representations

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

6. 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 the Morenci Area Schools' 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.

7. 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 the Morenci Area Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Maner Costerisan
Certified Public Accountants
Business & Technology Advisors

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September 25, 2018

To the Board of Education
Morenci Area Schools

In planning and performing our audit of the financial statements of Morenci Area Schools as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered Morenci Area Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies have been identified. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 25, 2018 on the financial statements of Morenci Area Schools. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows.

Segregation of Duties

We commend the District for continued improvement in this area. In fiscal year 2018, an additional staff member was hired to assist with financial procedures. This allowed the Director of Finance to separately review the work of the staff, providing adequate segregation of duties. During the audit, it was noted that this staff member would be leaving the business office with no clear replacement.

With a limited staff in the business office, it is inherently difficult to achieve adequate segregation of duties. We recommend that the District consider replacing the departed staff member in the business office in order to maintain adequate segregation of duties during fiscal year 2019.

Federal Purchasing Policy

During our review of the District's federal purchasing policy we noted that the District's threshold for micro-purchases ($3,000) was less than the threshold set by the Federal Acquisition Regulation at 48 CFR Subpart 2.1 ($3,500).

Effective December 2018, the federal micro-purchase threshold will increase to $10,000. We recommend that the District refer to the threshold set by the Uniform Guidance in their federal purchasing policy in order to avoid having to update the policy every time the threshold is changed in the regulations.

Formal Written IT Policies & Procedures

During our review of general computer controls in the District, we noted that the District does not have formal, written information technology policies and procedures. With the ever-increasing presence of cyber-security threats, we recommend the implementation of written information technology policies and procedures.

Food Service Fund Balance

Per Michigan Department of Education (MDE) guidelines, school food authorities (SFA) must operate food services on a nonprofit basis. During our audit procedures, we noted that the fund balance of Morenci Area Schools' food service fund exceeded the maximum set by the USDA, which is three months' average operating expenditures. As of June 30, 2018, the food service fund balance exceeded the maximum by $42,247. MDE requires that the SFA spend down the excess by the end of the next school year. We recommend that Morenci Area Schools make an effort to spend down the excess by June 30, 2019.

This report is intended solely for the information and use of management, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner Costerisan PC

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September 25, 2018

To the Board of Directors
Morenci Area Schools

We have audited the financial statements of Morenci Area Schools for the year ended June 30, 2018, and have issued our report thereon dated September 25, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Morenci Area Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Morenci Area Schools' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

8. Other Matters

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement 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.

We were engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this other 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 accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Very truly yours,

Maner Costerisan PC