

Mid Peninsula School District

**Audited Financial Statements and
Additional Supplemental Information**

For the Year Ended

June 30, 2018

Mid Peninsula School District
Table of Contents

Independent Auditor's Report Letter	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
District-Wide Financial Statements	
Statement of Net Position.....	8
Statement of Activities.....	9
Balance Sheet – Governmental Funds.....	10
Reconciliation of the Governmental Funds Balance Sheet with the Statement of Net Position.....	11
Combining Statement of Revenue, Expenditures and Changes in Fund Balances Governmental Funds.....	12
Reconciliation of the Statement of Revenue, Expenditures and Change in Fund Balances to the Statement of Activities	13
Statement of Fiduciary Net Position	14
Statement of Changes in Fiduciary Net Position.....	14
Notes to the Financial Statements	15-36
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund.....	37
Schedule of Mid Peninsula Pension Contributions.....	38
Schedule of Mid Peninsula Proportionate Share Of the Net Pension Liability	39
Schedule of Mid Peninsula OPEB Contributions.....	40
Schedule of Mid Peninsula Proportionate Share Of OPEB Liability	41
Other Supplemental Information:	
General Fund Budgetary Schedule of Revenue.....	42
General Fund Budgetary Comparison Schedule of Expenditures.....	43-48
Independent Auditor's Report on Compliance and Internal Control Based on an Audit of the General Purpose Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	49-50
Schedule of Findings and Responses.....	51
Schedule of Prior Year Findings and Responses.....	52

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To the Board of Education
Mid Peninsula School District
Rock, Michigan

INDEPENDENT AUDITOR'S REPORT

REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Mid Peninsula School District, Rock, Michigan as of and for the year ended June 30, 2018, and the related notes to the financial statements which collectively comprise the School District 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements which, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the School District preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the School District 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 evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

OPINION

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 Mid Peninsula School District as of June 30, 2018, and the respective changes in financial position where applicable, thereof for the year then ended, accordance with accounting principles generally accepted in the United States of America.

EMPHASIS OF MATTER

The basic financial statements, as of July 1, 2017 the School District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The School Districts unrestricted net position has been restated as of July 1, 2017 as a result of this change in accounting principle. Our opinion is not modified with respect to this matter.

OTHER – MATTERS

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the Management's discussion and analysis, the major fund budgetary comparison schedule and the pension and OPEB system schedules of funding progress and employer contributions 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, which 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 supplemental 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 an opinion on the financial statements that collectively comprise Mid Peninsula School District, Rock, Michigan, basic financial statements. The other supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENTAL AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report letter dated October 12, 2018, on our consideration of the School District internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mid Peninsula School District internal control over financial reporting and compliance.



Johnson & Rennie, LLC
Menominee, Michigan
October 12, 2018

Mid Peninsula School District
Management's Discussion and Analysis
Year Ended June 30, 2018

Management's Discussion and Analysis

This section of the Mid Peninsula School District's annual financial report presents our discussion and analysis of the School District's performance during the year ended June 30, 2018. It is to be read in conjunction with the School District's financial statements, which immediately follow this section.

Generally accepted accounting principles (GAAP) according to GASB 34 require the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements. These statements are organized so the reader can understand the Mid Peninsula School District financially as a whole. The District-wide Financial Statements provide information about the activities of the whole School District presenting both an aggregate view of the School District's finances and a long-term view of those finances. The Fund Financial Statements provide the next level of detail. For governmental activities these statements tell how services were financed in the short-term as well as what remains for future spending. The fund Financial Statements look at the School District's operations in more detail than in the government-wide financial statements by providing information about the School District's most significant fund, the General Fund with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net assets, presents financial information about the activities for which the School District acts solely as an agent for the benefit of students and parents.

Financial Section

Basic Financial Statements

- District-wide Financial Statements

Fund Financial Statements

- Balance Sheet – Governmental Funds
- Statement of Revenue, Expenditures
- Statement of Fiduciary Net Position
- Notes to Financial Statements

Required Supplemental Information

- Budgetary Comparison Schedule
- Schedule of Contributions
- Schedule of Proportionate Share of the Net Pension Liability

Other Supplemental Information

- General Fund Schedule of Revenue
- General Fund Schedule of Expenditures

Management's Discussion and Analysis (continued)

The School District as a Whole

The following summarized the net position at fiscal year ended June 30, 2018 and June 30, 2017.

	Governmental Activities	
	2018	2017
Assets		
Current Assets	\$ 1,136,631	\$ 1,015,507
Capital assets	2,176,486	2,372,759
Total Assets	<u>3,313,117</u>	<u>3,388,266</u>
Deferred Outflow of Resources - Pensions	613,617	482,706
Deferred Outflow of Resources - OPEB	<u>9,722</u>	<u>-</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 3,936,456</u>	<u>\$ 3,870,972</u>
Liabilities		
Current liabilities	\$ 1,083,325	\$ 1,127,270
Long-term liabilities	3,882,407	4,313,701
Total Liabilities	<u>4,965,732</u>	<u>5,440,971</u>
Deferred Inflow of Resources - Pensions	376,990	113,099
Deferred Inflow of Resources - OPEB	<u>31,439</u>	<u>-</u>
Total Deferred Inflow of Resources	<u>408,429</u>	<u>113,099</u>
Total Liabilities and Inflow of Resources	<u>5,374,161</u>	<u>5,554,070</u>
Net Position		
Invested in property and equipment - net of related debt	1,702,176	1,593,326
Restricted	93,379	45,090
Unrestricted (Deficit)	<u>(3,233,260)</u>	<u>(3,321,514)</u>
Total Net Position (Deficit)	<u>\$ (1,437,705)</u>	<u>\$ (1,683,098)</u>

The above analysis focuses on the net position. The School District's net position was a deficit of \$1,437,705 as of June 30, 2018. Capital assets, net of related debt, totaled \$1,702,176. This compares to the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position of \$93,379 is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations. The remaining \$3,233,260 deficit represents the accumulated results of all past year's operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

Management's Discussion and Analysis (continued)

The results of this years operations for Mid Peninsula School District as a whole are reported in the statement of activities which show the changes in net position for fiscal year 2018 and 2017.

	Government Activities	
	2018	2017
Program Revenue		
Charges for services	\$ 38,214	\$ 42,841
Operating grants and contributions	459,967	439,103
Total Program Revenue	<u>498,181</u>	<u>481,944</u>
General Revenue		
Property taxes levied for general operations and CFR	638,159	627,399
Property taxes levied for debt service and CFR	370,523	639,336
State foundation allowance and stabilization	664,142	801,217
Other school districts	-	47,446
Other	30,229	23,959
Total General Revenue	<u>1,703,053</u>	<u>2,139,357</u>
Total Revenue	<u>\$ 2,201,234</u>	<u>\$ 2,621,301</u>
Expenses		
Instruction	\$ 873,331	\$ 916,760
Support services	653,542	678,021
Depreciation - unallocated	196,273	202,406
Interest on debt	29,587	49,137
Athletics	72,470	72,085
Food services	130,638	130,112
Total Expenses	<u>1,955,841</u>	<u>2,048,521</u>
(Decrease) Increase in Net Position	<u>\$ 245,393</u>	<u>\$ 572,780</u>

As indicated above, net position increased by \$245,393. This increase relates directly to the operations of the District during the year and increased pension expense liability and the new OPEB liability.

Sources of Revenues

Local sources of revenues totaled \$1,077,125 and include revenues to the General Fund of \$683,335.

State sources of revenues total \$1,001,724 and include revenues to the General Fund of \$996,765 and School Lunch Fund of \$4,959. State sources of revenue make up 46% of General Fund Revenues. This ties the District directly to the States overall economy.

Federal sources of revenues total \$122,385 and include revenues to the General Fund of \$49,775 and School Lunch Fund of \$72,610.

Management's Discussion and Analysis (continued)

Expenses

Expenses include instruction of \$873,331, Support Services of \$653,542 and Debt Services of \$29,587. School Lunch Fund and Athletic Fund expenses are included in Support Services. Unallocated depreciation was \$196,273 for the year.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2018 the District had \$5,635,314 invested in a broad range of capital assets, including land, building, furniture and equipment.

	<u>2018</u>	<u>2017</u>
Assets		
Land	\$ 2,000	\$ 2,000
Land improvements	856,076	856,076
Buildings and land improvements	3,977,117	3,977,117
Vehicles	475,817	475,817
Machinery and equipment	<u>324,304</u>	<u>507,008</u>
Total Assets	5,635,314	5,818,018
Less Accumulated Depreciation	<u>(3,458,828)</u>	<u>(3,445,259)</u>
Net Total	<u>\$ 2,176,486</u>	<u>\$ 2,372,759</u>

There were no capital asset purchases last year. Depreciation expense for the year is \$196,273.

Debt

At the end of this year the District has \$450,000 in General Obligation Bonds outstanding. This is a decrease of \$215,000 which is the result of bond payments made during the year.

Economic Factors and Next Year's Budget Rates

The Board of Education and administration consider many factors when setting the School District's 2018 fiscal year budget. Two of the major factors affecting the budget are the student count and the State funding of unrestricted foundation allowance.

The 2018 budget was adopted in June 2017, based on an estimate of students that will be enrolled in September 2018. As a result, District funding is heavily dependent on the state's ability to fund local school operations. Once the final student count and related pupil finding is validated, state law requires the District to amend the budget if actual District resources are not sufficient to fund original appropriations. Since the District's revenue is heavily dependent upon state funding, actual funding depends on the state's ability to collect revenues to fund its appropriations to school districts.

Management's Discussion and Analysis (continued)

Original vs. Revised Budgets

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, the District amends its budget three times during the School year. The fiscal year 2017-2018, the budget was revised in December, April and June.

General Fund Revenues

Total Revenues - June revision	\$ 1,755,094
Total Revenues - original budget	<u>(1,628,578)</u>
Difference	<u>\$ 126,516</u>

Increase in Revenue Budget

The Districts actual fund revenue was \$138,462 less than the revised budget.

General Fund Expenditures

Total Expenditures - June revision	\$ 1,662,103
Total Expenditures - original budget	<u>(1,523,641)</u>
Difference	<u>\$ 138,462</u>

Increase in Expenditures Budget

The District's actual general fund expenditures were \$102,329 less than the revised budget.

Property Taxes

A significant portion of local revenue is provided from property taxes and CFR for the General Fund and Debt Retirement Fund. Tax revenue totaled \$1,008,682. This amount is obtained through a voter approved 18-mill levy on the taxable value of non-homestead properties for the District's operations and voter approved 8.1 mill levy on the taxable value of all properties, homestead and non-homestead, for debt interest and principal payments.

Unrestricted State Aid Foundation Allowance

The most significant portion of funding to the District is through the foundation allowance. The foundation allowance is funding from the state for each student set annually. The District's foundation allowance is \$7,631 per student for the 2017-2018 fiscal year. The number of students to be funded is calculated by student enrollment blended at 80% of current year September count and 20% of prior year February count. Total blended student enrollment for this fiscal year is 172.37. The overall funding is then reduced by the District's non-homestead tax levy based on 18 mills.

Contacting the District's Financial Management

The 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 School District's accountability for the money it received. If you have any questions about this report or need additional information, contact the Business Office at Mid Peninsula Area School, 5055 St. Nicholas 31st Road, Rock, MI 49880.

Mid Peninsula School District
Statement of Net Position
June 30, 2018

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Cash and investments	\$ 844,541
Due from other Governmental units	286,193
Due from local sources	5,897
Total Current Assets	1,136,631
Non-Current Assets	
Capital assets	5,635,314
Less: accumulated depreciation	(3,458,828)
Total Non-Current Assets	2,176,486
Deferred Outflow of Resources - Pension	613,617
Deferred Outflow of Resources - OPEB	9,722
Total Assets and Deferred Outflow	\$ 3,936,456
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 93,268
Accrued salaries and benefits	44,914
Accrued interest	3,187
Notes payable	700,000
Loan payable, due within one year	16,956
Bonds payable, due within one year	225,000
Total Current Liabilities	1,083,325
Non-Current Liabilities	
Net pension liability	2,723,274
Net OPEB liability	929,966
Bonds payable	225,000
Loan payable	4,167
Total Non-Current Liabilities	3,882,407
Total Liabilities	4,965,732
Deferred Inflow of Resources	
Pension	272,131
OPEB	31,439
State aide funding for pension	104,859
Total Deferred Inflow of Resources	408,429
Net Position	
Invested in capital assets, net of related debt	1,702,176
Restricted for debt service	93,379
Unrestricted	(3,233,260)
Total Net Position	\$ (1,437,705)

Mid Peninsula School District
Statement Activities
June 30, 2018

	Expenses	Program Revenue		Governmental
		Charges for Services	Operating Grants and Contributions	Activities
				Net (Expense) Revenue and Changes in Net Position
GOVERNMENTAL FUNCTIONS				
Current:				
Instruction	\$ (873,331)	\$ -	\$ 382,398	\$ (490,933)
Supporting services	(653,542)	-	-	(653,542)
Food services	(130,638)	23,267	77,569	(29,802)
Athletics	(72,470)	14,947	-	(57,523)
Interest on long-term debt	(29,587)	-	-	(29,587)
Depreciation (unallocated)	(196,273)	-	-	(196,273)
Total Governmental Functions	<u>\$ (1,955,841)</u>	<u>\$ 38,214</u>	<u>\$ 459,967</u>	<u>(1,457,660)</u>
GENERAL REVENUE				
Property Taxes:				
General purposes				638,159
Debt services				370,523
State aid not restricted for specific purpose				664,142
Interest and investment earnings				5,178
Other				25,051
Total General Revenue				<u>1,703,053</u>
Change in Net Position				245,393
Net Position - beginning of year, as previously reported				(702,190)
Cumulative Effect of Change in Accounting				<u>(980,908)</u>
Net Position - Beginning of Year				<u>(1,683,098)</u>
Net Position - End of Year				<u>\$ (1,437,705)</u>

Mid Peninsula School District
Balance Sheet
Governmental Funds
June 30, 2018

	Major		Non-Major	Total
	General	Debt Service Fund	Special Revenue Food Service	
Assets				
Cash and investments	\$ 752,128	\$ 92,176	\$ 237	\$ 844,541
Accounts receivable	3,500	-	2,397	5,897
Due from other Governmental units	285,198	-	995	286,193
Due from other funds	-	-	6,225	6,225
Prepays	-	-	-	-
Total Assets	\$ 1,040,826	\$ 92,176	\$ 9,854	\$ 1,142,856
Liabilities, Deferred Inflow of Resources and Fund Equity				
Liabilities				
Accounts payable	\$ 91,025	\$ -	\$ 2,243	\$ 93,268
Due to other funds	6,124	101	-	6,225
Accrued salaries and benefits	38,040	-	6,874	44,914
Notes payable	700,000	-	-	700,000
Total Liabilities	835,189	101	9,117	844,407
Deferred Inflow of Resources				
Unavailable Revenue				
Federal and State Grants	-	-	-	-
Fund Balance				
Non-spendable prepaids	-	-	-	-
Restricted for debt retirement	-	92,075	-	92,075
Restricted for hot lunch	-	-	737	737
Restricted for Athletics	567	-	-	567
Committed to early retirement incentive	-	-	-	-
Unassigned	205,070	-	-	205,070
Total Fund Balance	205,637	92,075	737	298,449
Total Deferred Inflow of Resources and Fund Equity	\$ 1,040,826	\$ 92,176	\$ 9,854	\$ 1,142,856

Mid Peninsula School District
Reconciliation of the Governmental Funds
Balance Sheet with the Statement of Net Position
June 30, 2018

Total Governmental Fund Balance \$ 298,449

Amounts Reported for Governmental Activities in the Statement of Net Position Because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds

The Cost of Capital Assets are:	\$ 5,635,314	
Accumulated Depreciation is:	<u>(3,458,828)</u>	2,176,486

Long-term liabilities are not due and payable in the current period and are not reported in the funds

Bonds Payable	(450,000)
Note Payable	(21,123)

Accrued interest is not included as a liability in governmental funds (3,187)

Net pension obligations are not due and payable in the current period and therefore, are not reported in the funds

Net Pension Liability	(2,723,274)
Net OPEB Liability	(929,966)

Deferred outflows and inflows or resources related to pensions are applicable to future periods and therefore, are not reported in the funds

Deferred Outflows of Resources Related to Pensions	613,617
Deferred Outflows of Resources Related to OPEB	9,722
Deferred Inflows of Resources Related to Pensions	(272,131)
Deferred Inflows of Resources Related to OPEB	(31,439)
Deferred inflows from state aide funding	<u>(104,859)</u>

Net Position of Governmental Activities **\$ (1,437,705)**

Mid Peninsula School District
Combining Statement of Revenue, Expenditures
and Changes in Fund Balances Governmental Funds
For the Year Ended
June 30, 2018

	Major		Non-Major	Total
	General Fund	Debt Service Fund	Special Revenue Food Service	
REVENUES				
Local sources	\$ 683,335	\$ 370,523	\$ 23,267	\$ 1,077,125
State sources	996,765	-	4,959	1,001,724
Federal sources	49,775	-	72,610	122,385
Other school districts	-	-	-	-
Total Revenues	<u>1,729,875</u>	<u>370,523</u>	<u>100,836</u>	<u>2,201,234</u>
EXPENDITURES				
Current:				
Instruction	851,697	-	-	851,697
Supporting service	704,377	-	-	704,377
Food Services	-	-	130,638	130,638
Debt service:				
Principle retirement	-	293,280	-	293,280
Interest	-	30,258	-	30,258
Capital outlay	-	-	-	-
Total Expenditures	<u>1,556,074</u>	<u>323,538</u>	<u>130,638</u>	<u>2,010,250</u>
Excess of Revenues - Expenditures	173,801	46,985	(29,802)	190,984
OTHER FINANCE SOURCES (USES)				
Operating transfers in	-	-	30,000	30,000
Operating transfers out	(30,000)	-	-	(30,000)
Note payable	(16,829)	-	-	(16,829)
Total Other Finances Sources (Uses)	<u>(46,829)</u>	<u>-</u>	<u>30,000</u>	<u>(16,829)</u>
Excess Revenues and Other Resources Over (Under) Expenditures & Other Uses	126,972	46,985	198	174,155
Fund Balance July 1	78,665	45,090	539	124,294
Fund Balance June 30	<u>\$ 205,637</u>	<u>\$ 92,075</u>	<u>\$ 737</u>	<u>\$ 298,449</u>

Mid Peninsula School District
 Reconciliation of the Statement of Revenue, Expenditures
 and Change in Fund Balances
 to the Statement of Activities
 Year Ended June 30, 2018

Net Changes in Fund Balances - Total Governmental Funds **\$ 174,155**

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	\$ (196,273)	
Capital Outlay	<u>-</u>	(196,273)

Accrued interest is recorded in the statement of activities when incurred. It is not reported in the Governmental Funds until paid.		1,470
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Repayments of bond principal area an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).

Loan Repayment - Bus		16,030
Bond Payable - Building and site		215,000
Note Payable - Bond Loan Fund		78,280

In the statement of activities, operating expenses for pension related items are measured by amounts earned during the year while governmental funds report expenditures as amounts paid. This year the amount paid for pension related items was more than the amount earned.		118,719
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In the statement of activities, operating expenses for OPEB related items are measured by amounts earned during the year while governmental funds report expenditures as amounts paid. The amount paid for OPEB related items was less than the amount earned.		<u>(161,988)</u>
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Change in Net Position as Governmental Activities		<u>\$ 245,393</u>
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Mid Peninsula School District
Statement of Fiduciary Net Position
Year Ended June 30, 2018

Statement of Fiduciary Net Position

	Private-Purpose Trust	Agency Fund	Total
ASSETS			
Cash	\$ 336,982	\$ 62,884	\$ 399,866
Total Assets	\$ 336,982	\$ 62,884	\$ 399,866
LIABILITIES			
Due to student groups	\$ -	\$ 62,884	\$ 62,884
Total Liabilities	-	62,884	62,884
NET POSITION			
Reserve for scholarships	336,982	-	336,982
Total Liabilities and Net Position	\$ 336,982	\$ 62,884	\$ 399,866

Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund

REVENUES	
Investment income	\$ 33,639
Total Revenues	33,639
EXPENDITURES	
Scholarships	20,050
Total Expenditures	20,050
Excess Revenue Over (Under) Expenditures	13,589
Net Position	
Beginning Balance July 1	323,393
Ending Balance June 30	\$ 336,982

Notes to Financial Statements

Mid Peninsula School District
Notes to Financial Statements
June 30, 2018

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Mid Peninsula School District have been prepared as prescribed by the Michigan Department of Education. These policies are in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies.

Reporting Entity

In conformity with generally accepted accounting principles, other autonomously operated governmental organizations are not considered to be part of the School District's entity financial reporting purposes nor is the School District a component unit of another entity. The criteria established for determining the various governmental organizations to be included in the School District's financial statements include oversight responsibility, scope of public service and special financing relationships. Based upon the application of these criteria the financial statements of the School District contain all the funds controlled by the District's Board of Education as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the District.

Basis of Presentation

District-Wide Financial Statements

The School District-wide financial statements (Statement of Net Position and Statement of Activities) report information on all of the activities of the School District except for the fiduciary activities. All of the School District's activities are considered to be governmental activities. Interfund activity including operating transfers between activities and amounts due to and from governmental activities has been eliminated in the School District-wide statements.

Fund-Based Financial Statements

Separate financial statements are provided on the basis of funds, each of which is considered a separate fiscal and accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Governmental as well as fiduciary funds are provided. The various fund types are grouped in the financial statements as major funds or non-major funds. The School District reports the following major governmental funds:

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

Debt Service Fund - is used to account for the payment of principal and interest on the school building and site bonds payable.

Mid Peninsula School District
Notes to Financial Statements
June 30, 2018

NOTE A **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**
Basis of Presentation (continued)

All other governmental funds are considered to be non-major. They include:

Special Revenue Fund - is used by the School District to account for food services.

Fiduciary Funds

Private-Purpose Trust Fund - is used to account for assets held by the School District in a trustee capacity as administrator of scholarship and other funds under direct control of the School District.

Agency Fund - is used to account for assets held by the School District in its capacity as a receiving and paying agent for the several student body activity groups.

Basis of Accounting

District-Wide Financial Statements

The District-wide financial statements report all financial and capital assets, short and long-term liabilities, revenues, expenses, gains and losses using the economic resources measurement focus and the accrual basis of accounting. All revenue is recorded when earned and expenses are recorded when a liability is incurred.

The statement of Activities reports net cost information based on the School District's functions. Direct expenses are listed by function with program revenues for each function offset against those expenses. Program revenues include charges for services that are fees and other charges to the users or recipients of the services the School District provides. Program revenues also include operating grants and contributions that are restricted for a particular purpose. Property taxes, nonrestricted state aid and other revenues that are not program revenues are reported as general revenues.

Fund-Based Financial Statements

The governmental funds and fiduciary funds are accounted for by using the modified accrual basis of accounting as required by the Michigan Department of Education. Under the modified accrual basis of accounting, revenue is recognized when the revenue is subject to accrual, eligibility requirements are met and the revenues are available to finance expenditures of the fiscal period. Revenue is considered available when the revenue has been collected in the current period or soon enough after the end of the period to use to pay current period liabilities.

Mid Peninsula School District
Notes to Financial Statements
June 30, 2018

NOTE A **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**
Basis of Accounting (continued)

Fund-Based Financial Statements (continued)

The School District considers revenues to be available if collected within 60 days of the end of the period. Expenditures are recorded when the related liability is incurred. Exceptions to this general rule include certain compensated absences and principal and interest on long-term debt, both of which are recognized when due. Property taxes are recognized in the fiscal year for which the taxes have been levied.

Property Taxes

Property taxes attach as an enforceable lien on property as of December 31. Current property taxes are collected for the School District by the Townships of Baldwin, Maple Ridge, Ewing and Turin. School taxes are levied on July 1.

Delinquent real property taxes of the School District are purchased annually by the Counties of Marquette and Delta.

State Foundation Revenue

The State of Michigan follows a foundation grant approach, which provides for a specific annual amount of revenue per student based on a state wide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information regarding average pupil membership supplied by the districts. The funds received in July and August of 2017 are state appropriations for the year ended June 30, 2018, and, as such, are recorded as accounts receivable.

State Categorical Revenue

The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

Federal Revenue

Expenditure-driven grants are recognized as revenue when revenue is available, the qualifying expenditures have been incurred and all other grant requirements have been met.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposit accounts at local financial institutions.

Mid Peninsula School District
Notes to Financial Statements
June 30, 2018

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

State statutes authorize the School 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; and 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 mature not more than 270 days after the date of purchase. The School District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks and mutual funds composed of investments outlined above.

Short-Term Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet of the fund-based financial statements.

Restricted Assets

Restricted assets consist of cash and cash equivalents of the Debt Services Funds required to be set aside for future bond principal and interest payments.

Inventories and Prepaid Items

Inventories are stated at cost and consist principally of supplies, heating fuel and bus fuel. Inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets and Depreciation

Capital assets include land and improvements, buildings, furniture and fixtures, equipment, school buses and vehicles and are reported in the School District-wide financial statements. Capital assets are defined by the School District as assets with an acquisition cost of more than \$1,000 with an estimated useful life in excess of one year. Assets meeting these criteria are recorded at historical cost or estimated historical costs if the amount is not known. Any donated capital assets are recorded at estimated fair market value at the date of donation. The costs of capital assets are charged to expense using an annual allocation of depreciation expense. Taking the depreciable cost of an asset and dividing that cost by its estimated useful life calculates the annual expense. The expense is recorded on the District-Wide Statement of Activities and included as a direct expense of an identifiable function. Depreciation expense (unallocated) is the amount of depreciation expense that cannot be charged to any particular function.

The capital assets are depreciated using the straight-line method with a half month depreciation taken for assets purchased during the year over the following useful lives (land excluded as not depreciable):

Land improvements	20 years
Building and additions	50 years
Furniture, fixtures and other equipment	10 years
School buses and vehicles	5 - 15 years

Mid Peninsula School District
Notes to Financial Statements
June 30, 2018

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

The liability for accumulated vacation and sick pay amounts is recorded in the District-wide statement of net position.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position and balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

Pension and Other Postemployment Benefit (OPEB) Plans

For the purpose of measuring the net pension and net OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to each plan, and pension and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contributions revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expenses when due and payable in accordance with the plan benefit terms. Related Investments are reported at fair value.

Unemployment Insurance

The School District reimburses the Michigan Employment Security Commission for the actual amount disbursed on behalf of the School District.

Long-Term Obligations

The School District reports long-term debt and other long-term obligations in the District-wide statement of net position. Amounts are recorded at face value along with any accrued interest to June 30, 2018.

Investment in Capital Assets Net of Related Debt

This is a portion of the net position of the School District that consists of capital assets, net of accumulated depreciation and reduced by long-term liabilities for notes, bonds and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted Net Position

Net position is restricted when there are constraints placed on their use by external parties or by statute.

Unrestricted Net Position

Net position not meeting either criteria above or considered unrestricted.

Mid Peninsula School District
Notes to Financial Statements
June 30, 2018

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Balance

In the fund-based financial statements the restricted fund balances represent the amount set aside for constraints placed on them by external creditors or laws of other Governments. The committed fund balances represent the internal reservations by the School District's Board.

The non-spendable balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact.

Use of Estimates

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

Subsequent Events

Management has evaluated subsequent events through the date of the audit report.

NOTE B STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

The School District follows these procedures in establishing the budgetary data reflected in the financial statements for the General and Special Revenue Funds. The School District is not legally required to adopt budgets for the Debt Service Funds.

1. Prior to July 1, the School District Superintendent submits to the Board of Education, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted at a regular meeting by Board of Education approval.
4. Any revisions to the budgeted amounts must be approved by the Board of Education.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. These budgets lapse at the end of each year.
6. Budgeted amounts presented in the financial statements are as originally adopted or as amended by the Board of Education prior to June 30, 2018.

Public Act 621 of 1978 Disclosures

Public Act 621 of 1978 requires local units of government (including School Districts) to prepare and to monitor their fiscal year budgets in accordance therewith. The Act provides that a school district must amend its budget if it becomes apparent that the School Districts actual revenues will deviate from those budgeted or if the School District's expenditures will exceed the amount appropriated. During the year ended June 30, 2018, the School District monitored and amended its budget and was in substantial compliance with the Act.

Mid Peninsula School District
Notes to Financial Statements
June 30, 2018

NOTE B STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

Public Act 275 of 1980 Disclosure

There were no deficits in any of the School District's fund-based financial statements as of June 30, 2018.

NOTE C CASH AND INVESTMENTS

The carrying amount of various deposits presented on the statement of net position as "Cash and Investments" were made in financial institutions whose deposits are covered by federal depository insurance or in a municipal investment fund. All deposits were made in accordance with State of Michigan statutes and under authorization of the Board of Education.

At June 30, 2018, cash and investments on deposit total is as follows:

<u>Investments</u>	
Financial Institutions	\$ 404,269
Municipal Fund	542,592
Foundations - Agency Funds	<u>328,678</u>
	<u>\$ 1,275,539</u>

The amount covered by depository insurance of \$154,629 exceeded insurance limits. The School District places its deposits and investments with, what it believes to be, high quality financial institutions. An amount of \$542,592 was deposited in some uninsured municipal funds. The municipal investment funds are not subject to credit risk categorization. The School District places its deposits and investments in some uninsured funds, they are, in the opinion of the School District, subject to minimal risk.

The School District investments at June 30, 2018 consisted of US Treasury Bonds. This investment amounted to \$1,318 in the Private-Purpose Trust Fund.

Mid Peninsula School District
Notes to Financial Statements
June 30, 2018

NOTE D CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2018 were as follows:

	Balance 6/30/17	Additions	Disposals and Adjustments	Balance 6/30/18
Assets not being Depr:				
Land	\$ 2,000	\$ -	\$ -	2,000
Capital Assets being Depr:				
Bldg & bldg improvement	3,977,117	-	-	3,977,117
Land improvement	856,076	-	-	856,076
Vehicles	475,817	-	-	475,817
Equipment	507,008	-	182,704	324,304
Total	<u>5,818,018</u>	<u>-</u>	<u>182,704</u>	<u>5,635,314</u>
Accumulated Depreciation:				
Bldg & bldg improvement	2,133,122	116,754	-	2,249,876
Land improvement	573,806	41,868	-	615,674
Vehicles	349,373	25,462	-	374,835
Equipment	388,958	12,189	182,704	218,443
Total	<u>3,445,259</u>	<u>196,273</u>	<u>182,704</u>	<u>3,458,828</u>
Net Capital Assets	<u>\$ 2,372,759</u>	<u>\$ (196,273)</u>	<u>\$ -</u>	<u>\$ 2,176,486</u>

Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

NOTE E LONG-TERM DEBT

Changes in Long-Term Debt are summarized as follows:

	Balance 6/30/17	Additions	Deductions	Balance 6/30/18
Notes payable for:				
School bldg & site bonds	\$ 665,000	\$ -	\$ 215,000	\$ 450,000
Compensated absences	-	-	-	-
Note payable	37,153	-	16,030	21,123
School bond loan fund	78,280	-	78,280	-
	<u>\$ 780,433</u>	<u>\$ -</u>	<u>\$ 309,310</u>	<u>\$ 471,123</u>

Mid Peninsula School District
Notes to Financial Statements
June 30, 2018

NOTE E LONG-TERM DEBT (continued)

School Building and Site Bonds

On July 24, 2008, the School District issued \$1,935,000 of School Building and Site Bonds for renovation of the School. A summary of annual principal and interest requirements to maturity with interest paid November 1 and interest and principal paid May 1 follows:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest Amount</u>		<u>Total</u>
			<u>1-Nov</u>	<u>1-May</u>	
2019	4.2000%	\$ 225,000	\$ 9,563	\$ 9,563	\$ 244,126
2020	4.3000%	225,000	4,837	4,837	234,674
		<u>\$ 450,000</u>	<u>\$ 14,400</u>	<u>\$ 14,400</u>	<u>\$ 478,800</u>

Note Payable Bus

The School District has a note payable to First Bank for the purchase of a bus. The loan was originally taken out for \$80,896 and has a 1.49% interest rate.

<u>Maturity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 16,956	\$ 233	\$ 17,189
2020	4,167	50	4,217
	<u>\$ 21,123</u>	<u>\$ 283</u>	<u>\$ 21,406</u>

School Bond Loan Payable

The School bond loan payable represents the amount borrowed from the State of Michigan School Bond Loan Fund. This amount was borrowed to assist in the payment of interest on the bonds outstanding. The loan was paid off during the year.

Compensated Absences

Compensated absences consist of amounts due employees for unused accumulated sick pay upon termination of their employment. There were no eligible employees at June 30, 2018.

Aggregate Amounts

The aggregate amounts due on long-term debt excluding employee benefits for following years as follows:

<u>Year Ending June 30</u>	
2019	\$ 241,956
2020	\$ 229,167

Mid Peninsula School District

Notes to Financial Statements

June 30, 2018

NOTE F GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM (MPSERS) PENSION PLAN

PLAN DESCRIPTION

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

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

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

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

Benefits Provided

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

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

Contributions

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

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

Mid Peninsula School District

Notes to Financial Statements

June 30, 2018

NOTE F GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM (MPSERS) PENSION PLAN (continued)

Contributions (continued)

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

Pension Contribution Rates

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

Required contributions to the pension plan from Mid Peninsula School District were \$246,487 for the year ended September 30, 2017.

PENSION, LIABILITIES, PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

At June 30, 2018, Mid Peninsula School District reported a liability of \$2,723,274 for its proportionate share of the MPSERS net pension liability. The next pension liability was measured as of September 30, 2017 and the total pension liability used to calculate the net position was determined by an actuarial valuation rolled forward from September 2016. Mid Peninsula School District's proportion of the net pension liability was determined by dividing each employers statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, Mid Peninsula School District proportion was .01051 percent, which was a decrease of .00149 percent from its proportion measured as of September 30, 2016.

For the year ended June 30, 2018, Mid Peninsula School District's recognized pension expense of \$284,939. At June 30, 2018, Mid Peninsula School District's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ 23,667	\$ 13,363
Changes of assumptions	298,356	-
Net difference between projected and actual earnings on pension plan investments	-	130,190
Changes in proportion and differences between Mid Peninsula Public Schools contributions and proportionate share of contributions	72,453	128,578
Mid Peninsula Public Schools contributions subsequent to the measurement date	219,141	-
	<u>\$ 613,617</u>	<u>\$ 272,131</u>

Mid Peninsula School District
Notes to Financial Statements
June 30, 2018

NOTE F GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM (MPSERS) PENSION PLAN (continued)

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses as follows:

Deferred (Inflow) and Deferred Outflow of Resources by Year (to Be Recognized in Future Pension Expenses)

September 30	Amount
2018	\$ 52,526
2019	\$ 87,739
2020	\$ 5,537
2021	\$ (23,457)

Actuarial Assumptions

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

Additional information as of the latest actual valuation as follows:

Summary of Actuarial Assumptions

Valuation Date	September 30, 2016
Actuarial Cost Method	Entry Age, Normal
Wage Inflation Rate	3.5%
Investment Rate of Return	
-MIP and Basic Plans (Non-Hybrid)	8.0%
-Pension Plan Plus (Hybrid)	7.5%
Projected Salary Increases	3.5-12.3%, including wage inflation at 3.5%
Cost of Living Pension Adjustments	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Mid Peninsula School District
Notes to Financial Statements
June 30, 2018

NOTE F GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM (MPERS) PENSION PLAN (continued)

Summary of Actuarial Assumptions (continued)

Notes:

- 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 total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.5188 for non-university employers 1.1222 for university employers.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2017 MPERS Comprehensive Annual Financial Report. www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity Pools	28.0%	5.9%
% Alternative Investment Pools	18.0%	8.7%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	-0.1%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return pools	15.5%	5.0%
Short-Term Investment Pools	2.0%	-0.9%
TOTAL	100.0%	

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

Rate of Return

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

Discount Rate

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

Mid Peninsula School District
Notes to Financial Statements
June 30, 2018

NOTE F GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM (MPSERS) PENSION PLAN (continued)

Discount Rate (continued)

Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Mid Peninsula School District Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents Mid Peninsula School District proportionate share of the net pension liability, calculated using a discount rate of 7.5% (7.0% for the Hybrid Plan), as well as what Mid Peninsula School District proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid)*	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)*	1% Increase (Non-Hybrid/Hybrid)*
<u>6.5% / 6.0%</u>	<u>7.5% / 7.0%</u>	<u>8.5% / 8.0%</u>
\$3,547,521	\$2,723,274	\$2,029,311

**University employers provide non-hybrid plans only. For non-university employers, the Basic Plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.*

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR. Available at www.michigan.gov/orsschools.

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

At June 30, 2018, the District reported no payable amount of contributions to the pension plan required for the year ended June 30, 2018.

NOTE G - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM (MPSERS) OPEB PLAN

Plan Description

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

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

Mid Peninsula School District
Notes to Financial Statements
June 30, 2018

NOTE G - GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM (MPSERS) OPEB PLAN (continued)

Plan Description (continued)

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

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

Benefits Provided

Benefit provisions of the 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 healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other 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. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

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

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

Contributions

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

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method.

Mid Peninsula School District
Notes to Financial Statements
June 30, 2018

NOTE G - GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM (MPSERS) OPEB PLAN (continued)

Contributions (continued)

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

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

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.00%	5.91%
Personal Healthcare Fund	0.00%	5.69%

Required contributions to the OPEB plan from Mid Peninsula School District were \$81,759 for the year ended September 30, 2017.

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

At June 30, 2018, Mid Peninsula School District reported a liability of \$929,966 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. Mid Peninsula School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, Mid Peninsula School District's proportion was .01501 percent.

For the year ending June 30, 2018, Mid Peninsula School District recognized OPEB expense of 31,439. At June 30, 2018, Mid Peninsula School District 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
Differences between actual and expected experience	\$ -	\$ 9,901
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	21,538
Changes in proportion and differences between employer contributions and proportionate share of contributions	541	-
Employer contributions subsequent to the measurement date	9,181	-
	\$ 9,722	\$ 31,439