Mattawan Consolidated School

Financial Statements

June 30, 2018

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Mattawan Consolidated School
Members of the Board of Education and Administration
June 30, 2018

Members of the Board of Education

Alan Koenig – President

Scott Sylvester – Vice President

Maureen Ford – Treasurer

Ted Roethlisberger – Secretary

Mark Noffsinger – Trustee

Shari Magrath – Trustee

Bruce Miller – Trustee

Administration

Robin Buchler – Superintendent

Brenda Graham – Director of Finance

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Independent Auditors' Report

Management and the Board of Education
Mattawan Consolidated School
Mattawan, Michigan

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mattawan Consolidated School, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

Auditors' Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions
In our opinion, the financial statements referred to 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 Mattawan Consolidated School, 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.

Adoption of New Accounting Standards
As described in Note 1 to the financial statements, during the year ended June 30, 2018, the School District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinions are 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, budgetary comparison information, schedule of the school district's proportionate share of the net pension liability, schedule of the school district's pension contributions, schedule of the school district's proportionate share of the net OPEB liability, and schedule of the school district's OPEB contributions, 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 the Mattawan Consolidated School's basic financial statements. The other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The other supplementary information, as identified in the table of contents, 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 supplementary information, as identified in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018 on our consideration of Mattawan Consolidated School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Mattawan Consolidated School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mattawan Consolidated School's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Kalamazoo, Michigan
October 30, 2018

Mattawan Consolidated School
Management's Discussion and Analysis
June 30, 2018

This section of Mattawan Consolidated School's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2018. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Mattawan Consolidated School financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund – the General Fund, with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. The annual report is arranged as follows:

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

<u>Basic Financial Statements</u>
District-wide Financial Statements ***Fund Financial Statements***

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds

Other Supplemental Information

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

One of the most important questions asked about the School District is, "As a whole, what is the School 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 School District's financial statements, report information about the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, 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 School District's net position – the difference between assets and liabilities, as reported in the statement of net position – is one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School 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 School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the School District.

The statement of net position and statement of activities report the governmental activities for the School District, which encompass all of the School 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.

Reporting the School District's Most Significant Funds – Fund Financial Statements
The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service Fund, for example) or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

> Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in reconciliation.

The School District as Trustee-Reporting the School District's Fiduciary Responsibilities
The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary assets and liabilities. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position as of June 30, 2018 and 2017.

Table 1

	Governmental Activities (in millions)	
	2018	2017
Assets		
Current and other assets	$ 24.0	$ 28.8
Capital assets	81.2	59.9
Total assets	105.2	88.7
Deferred Outflows of Resources		
Deferred amount on debt refunding	0.2	0.2
Deferred amount on net pension liability	10.9	6.7
Deferred amount on net OPEB liability	1.1	0.0
Total deferred outflows of resources	12.2	6.9
Total assets and deferred outflows of resources	117.4	95.6
Liabilities		
Current liabilities	7.9	8.9
Long-term liabilities	154.8	117.2
Total liabilities	162.7	126.1
Deferred Inflows of Resources		
Deferred amount on net pension liability	5.3	2.5
Deferred amount on net OPEB liability	0.5	0.0
Total liabilities and deferred inflows of resources	168.5	128.6
Net Position		
Invested in property and equipment – net of related debt	5.1	6.4
Restricted	1.8	1.5
Unrestricted	(58.0)	(40.9)
Total net position	$ (51.1)	$ (33.0)

The above analysis focuses on the net position (see TABLE 1). The change in net position (see TABLE 2) of the School District's governmental activities is discussed below.

The net position was $(51.1) million at June 30, 2018 and $(33.0) million at June 30, 2017. Capital assets, net of related debt compares 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 are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net position for day-to-day operations.

The unrestricted net position of governmental activities represents the *accumulated* results of all past year's operations. The unrestricted net position balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (TABLE 2), which shows the changes in net position for fiscal year 2018 and 2017.

Table 2	Governmental Activities (in millions)	
	2018	2017
Revenue		
Program revenue		
Charges for services	$ 1.1	$ 1.1
Federal grants and entitlements	2.5	2.0
General revenue		
Property taxes	7.3	7.5
State foundation allowance	29.6	29.2
Other	0.5	0.5
Total revenue	41.0	40.3
Functions/Program Expenses		
Instruction	22.3	21.5
Support services	12.5	11.4
Food services	1.3	1.3
Interest and fiscal charges on debt	3.5	2.6
Depreciation (unallocated)	3.1	1.8
Total Expenses	42.7	38.6
Increase (Decrease) in net position	$ (1.7)	$ 1.7

As reported in the statement of activities, the cost of all of our *governmental* activities this year was $42.7 million. Certain activities were partially funded from those who benefited from the programs ($1.1 million) or by other governments and organizations that subsidized certain programs with grants and contributions ($2.5 million). We paid for the remaining "public benefit" portion of our governmental activities with $7.3 million in taxes, $29.6 million in State foundation allowance, and with our other revenues ($0.5 million), i.e., interest and general entitlements.

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

As the School District completed this year, the governmental funds reported a combined fund balance of $16.9 million, which is a decrease of approximately $3.5 million from last year. The primary reasons for the decrease are as follows:

In the General Fund, our principal operating fund, showed an increase of approximately $110,000. General Fund balance is available to fund costs related to allowable school operating purposes.

Our Special Revenue Fund is comprised of the Food Service Fund and showed an increase of about $40,000. The Food Service Fund is self-supporting and includes a direct transfer to the General Fund to cover the cost of business operations.

The 2015 Capital Project Fund and the 2017 Capital Project Fund combined showed a decrease of about 4 million due to the expenditures with construction in progress for the Early Elementary building and the completion of the Later Elementary.

Combined, the Debt Service Funds showed an increase of $350,000. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds balances are reserved since they can only be used to pay debt service obligations.

Student Enrollment
The School District's student enrollment for the fall count of 2017-2018 was 3,813 students. The School District's enrollment increased by 16 full time equated (FTE) student from the prior school year's student count.

The following summarizes fall student enrollments in the past several years:

	Student FTE	Change from Prior Year
2017-2018	3,813	16
2016-2017	3,797	(45)
2015-2016	3,842	47
2014-2015	3,795	8
2013-2014	3,787	(4)
2011-2012	3,791	20
2010-2011	3,771	(52)
2009-2010	3,823	(1)

Subsequent to the year ended June 30, 2018, preliminary student enrollments for the 2018-2019 school year are projected to be about 3,750 FTE, based on the number of students enrolled during the October 2018 count.

Property Valuations

In accordance with Act 539, Public Acts of Michigan, 1982, as amended, and Article IX, Section 3 of the Michigan Constitution, the ad valorem State Equalized Valuation (SEV) represents 50% of true cash value. SEV does not included any value of tax exempt property (e.g. churches, governmental property) or property granted tax abatements under Act 198, Public Acts of Michigan, 1974, as amended. As a result of Proposal A, ad valorem property taxes are assessed on the basis of taxable value, which is subject to assessment caps.

Taxable property in the School District is assessed by the local municipal assessor and is subject to review by the County Equalization Department.

Historical Valuations

Year	Homestead	Non-Homestead	Total Valuation
2018	$ 684,789,453	$ 101,076,150	$ 785,865,603
2017	657,266,545	101,543,859	758,810,404
2016	635,730,597	95,466,368	731,196,965
2015	614,262,914	93,682,793	723,021,257
2014	612,509,203	91,232,559	703,741,762
2013	596,409,249	92,591,457	689,000,706
2012	598,694,981	94,690,962	693,385,943
2011	598,346,800	92,483,397	690,830,197
2010	599,304,772	93,523,344	692,828,116

Foundation Allowance per Pupil

The following table shows a history and current estimate of the School District's Foundation Allowance per Pupil:

	Per Pupil Amount
2017 – 2018	$ 7,631
2016 – 2017	7,511
2015 – 2016	7,391
2014 – 2015	7,126
2013 – 2014	7,026
2012 – 2013	6,966
2011 – 2012	6,846
2010 – 2011	7,316
2009 – 2010	7,151

The projected Foundation Allowance per Pupil amount for the 2018-2019 school year is $7,871.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the School District's original and final budget amounts, compared with amounts actually paid and received, is provided in required supplementary information of these financial statements.

There were revisions made to the 2017-2018 General Fund original budget. Budgeted revenues were increased by about $457,849 due mainly to additional funding from the state for retirement costs and additional property tax revenue.

Budgeted expenditures were increased by approximately $1,116,809 due mainly the additional retirement costs assumed by the district which was offset by additional funding by the state. There were also increases with maintenance, capital outlay, transportation, as well as increases in basic program costs.

During the year, the School District incurred variances between the original budget and final budget amounts, as follows:

	Original Budget	Final Budget	Variance
Revenues	$ 33,583,314	$ 34,041,163	$ 457,849
Expenditures	33,249,635	34,366,444	1,116,809

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2018, the School District had $81.2 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture and equipment, net of accumulated depreciation. This amount represents a net increase (including additions, disposals, and depreciation) of approximately $21.3 million from last year.

	2018	2017
Land	$ 740,429	$ 740,429
Construction in progress	19,758,196	27,684,425
Building and building improvements	74,156,775	44,094,760
Buses and other vehicles	3,625,340	3,420,879
Furniture and Equipment	11,616,237	9,698,478
Total Capital assets	$ 109,896,977	$ 85,638,971

This year's additions of $50.3 million were made up primarily of the addition of the Later Elementary building and associated contents and technology, the Middle and High School additions, construction in progress of the Early Elementary and equipment. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had $88.2 million outstanding versus $69.5 million in the previous year – a change of about 27% primarily due to the additional bond for the remainder of the funds for the completion of the elementary buildings as approved by the voters in 2014. Those bonds consisted of the following:

	2018	2017
General Obligation Bonds	$ 88,154,045	$ 61,315,000

The School District's general obligation bond rating is AA-. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. Other obligations include early retirement incentives. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2018/19 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2018/19 fiscal year is 10 percent and 90 percent of the February 2018 and October 2018 student counts, respectively. The 2018/19 budget was adopted in June 2018 based on an estimate of students that would be enrolled in September 2018. Approximately 91 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2018 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2018/19 budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations.

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

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Finance at 56720 Murray Street, Mattawan, Michigan 49071.

Mattawan Consolidated School
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets	
Cash	$ 5,508,109
Accounts receivable	14,049
Due from other governmental units	5,655,365
Inventory	21,123
Investments	12,786,322
Prepaid items	11,357
Other assets	
Capital assets not being depreciated	20,498,625
Capital assets - net of accumulated depreciation	60,667,006
Total assets	105,161,956
Deferred Outflows of Resources	
Deferred amount on debt refunding	205,797
Deferred amount relating to net pension liability	10,951,582
Deferred amount relating to net OPEB liability	1,058,530
Total deferred outflows of resources	12,215,909
Total assets and deferred outflows of resources	117,377,865
Liabilities	
Accounts payable	1,529,163
State aid anticipation note payable	2,839,725
Accrued expenditures	1,850,825
Accrued salaries payable	1,354,956
Unearned revenues	74,031
Long-term liabilities	
Debt due within one year	2,314,145
Debt due in more than one year	85,839,900
Net pension liability	49,817,805
Net OPEB liability	17,030,111
Total liabilities	162,650,661

Mattawan Consolidated School
Statement of Net Position
June 30, 2018

		Governmental Activities
Deferred Inflows of Resources		
Deferred amount relating to net pension liability	$	5,288,079
Deferred amount relating to net OPEB liability		575,742
Total deferred inflows of resources		5,863,821
Total liabilities and deferred inflows of resources		168,514,482
Net Position		
Net investment in capital assets		5,059,733
Restricted for:		
Debt service		1,780,389
Unrestricted (deficit)		(57,976,739)
Total net position	$	(51,136,617)

Mattawan Consolidated School
Statement of Activities
For the Year Ended June 30, 2018

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Functions/Programs				
Governmental activities				
Instruction	$ 22,252,332	$ 46,228	$ 1,889,532	$ (20,316,572)
Supporting services	12,503,211	303,987	43,673	(12,155,551)
Food services	1,323,315	760,451	566,517	3,653
Interest and fiscal charges on long-term debt	3,575,446	-	-	(3,575,446)
Depreciation - unallocated	3,137,923	-	-	(3,137,923)
Total governmental activities	$ 42,792,227	$ 1,110,666	$ 2,499,722	(39,181,839)
General revenues				
Property taxes, levied for general purposes				1,992,118
Property taxes, levied for debt service				5,404,776
State aid - unrestricted				29,572,603
Interest and investment earnings				296,899
Gain on sale of capital assets				4,000
Other				174,764
Total general revenues				37,445,160
Change in net position				(1,736,679)
Net position – beginning, as restated				(49,399,938)
Net position – ending				$ (51,136,617)

See Accompanying Notes to the Financial Statements

Mattawan Consolidated School
Governmental Funds
Balance Sheet
June 30, 2018

	General Fund	2015 Capital Project Fund	2017 Capital Project Fund	Nonmajor Govern-mental Funds	Total Govern-mental Funds
Assets					
Cash	$ 2,865,109	$ 98,764	$ 76,859	$ 2,467,377	$ 5,508,109
Accounts receivable	13,577	-	-	472	14,049
Due from other governmental units	5,644,784	-	-	10,581	5,655,365
Inventory	-	-	-	21,123	21,123
Investments	-	1,262,887	11,523,435	-	12,786,322
Prepaid items	11,357	-	-	-	11,357
Total assets	$ 8,534,827	$ 1,361,651	$ 11,600,294	$ 2,499,553	$ 23,996,325
Liabilities					
Accounts payable	$ 90,776	$ -	$ 1,419,023	$ 19,364	$ 1,529,163
State aid anticipation note payable	2,839,725	-	-	-	2,839,725
Accrued expenditures	1,273,116	-	-	9,189	1,282,305
Accrued salaries payable	1,354,716	-	-	240	1,354,956
Unearned revenue	42,669	-	-	31,362	74,031
Total liabilities	5,601,002	-	1,419,023	60,155	7,080,180
Fund Balance					
Non-spendable					
Inventory	-	-	-	21,123	21,123
Prepaid items	11,357	-	-	-	11,357
Restricted for					
Food service	-			69,366	69,366
Debt service	-	-	-	2,348,909	2,348,909
Capital projects	-	1,361,651	10,181,271	-	11,542,922
Unassigned	2,922,468	-	-	-	2,922,468
Total fund balance	2,933,825	1,361,651	10,181,271	2,439,398	16,916,145
Total liabilities and fund balance	$ 8,534,827	$ 1,361,651	$ 11,600,294	$ 2,499,553	$ 23,996,325

See Accompanying Notes to the Financial Statements

Mattawan Consolidated School

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

June 30, 2018

Total fund balances for governmental funds	$ 16,916,145
Total net position for governmental activities in the statement of net assets is different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	20,498,625
Capital assets - net of accumulated depreciation	60,667,006
Deferred outflows (inflows) of resources	
Deferred outflows of resources resulting from debt refunding	205,797
Deferred outflow of resources resulting from net pension liability	10,951,582
Deferred outflows of resources resulting from net OPEB liability	1,058,530
Deferred inflows of resources resulting from net pension liability	(5,288,079)
Deferred inflows of resources resulting from net OPEB liability	(575,742)
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(568,520)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Compensated absences	(299,428)
Bonds payable	(87,808,382)
Other loans payable and liabilities	(46,235)
Net pension liability	(49,817,805)
Net OPEB liability	(17,030,111)
Net position of governmental activities	$ (51,136,617)

See Accompanying Notes to the Financial Statements

Mattawan Consolidated School

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2018

	General Fund	2015 Capital Project Fund	2017 Capital Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Local sources	$ 2,503,688	$ 92,289	$ 234,839	$ 6,147,788	$ 8,978,604
State sources	30,931,623	-	-	90,334	31,021,957
Federal sources	287,951	-	-	499,582	787,533
Interdistrict sources	263,454	-	-	-	263,454
Total revenues	33,986,716	92,289	234,839	6,737,704	41,051,548
Expenditures					
Current					
Education					
Instruction	21,767,656	-	-	-	21,767,656
Supporting services	11,935,599	28,287	72	-	11,963,958
Food services	-	-	-	1,295,008	1,295,008
Capital outlay	173,153	14,218,385	10,353,730	-	24,745,268
Debt service					
Principal	-	-	-	1,605,000	1,605,000
Interest and other expenditures	6,844	-	461,242	3,448,225	3,916,311
Total expenditures	33,883,252	14,246,672	10,815,044	6,348,233	65,293,201
Excess (deficiency) of revenues over expenditures	103,464	(14,154,383)	(10,580,205)	389,471	(24,241,653)

Mattawan Consolidated School
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

	General Fund	2015 Capital Project Fund	2017 Capital Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)					
Proceeds from issuance of bonds	$ -	$ -	$ 20,400,000	$ -	$ 20,400,000
Premium on issuance of bonds	-	-	361,476	-	361,476
Proceeds from sale of capital assets	4,000	-	-	-	4,000
Transfers in	-	-	-	2,388	2,388
Transfers out	-	-	-	(2,388)	(2,388)
Total other financing sources (uses)	4,000	-	20,761,476	-	20,765,476
Net change in fund balance	107,464	(14,154,383)	10,181,271	389,471	(3,476,177)
Fund balance – beginning	2,826,361	15,516,034	-	2,049,927	20,392,322
Fund balance – ending	$ 2,933,825	$ 1,361,651	$ 10,181,271	$ 2,439,398	$ 16,916,145

See Accompanying Notes to the Financial Statements

Mattawan Consolidated School
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2018

Net change in fund balances - Total governmental funds	$ (3,476,177)
Total change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(3,137,923)
Capital outlay	24,423,717
Sale of capital assets (net book value)	(16,238)
Expenses are recorded when incurred in the statement of activities.	
Interest	(90,713)
Compensated absences	(8,865)
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in pension liability	(2,146,016)
Net change in the deferred inflow of resources related to the net pension liability	1,084,272
The statement of net OPEB reports the net OPEB liability and deferred outflows of resources and deferred inflows related to the net OPEB liability and OPEB expense. However, the amount recorded on the governmental funds equals actual OPEB contributions.	
Net change in OPEB liability	170,658
Net change in the deferred inflow of resources related to the net OPEB liability	125,453
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position however, issuing debt increases long-term governmental funds and liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Debt issued	(20,400,000)
Premium on debt issued	(361,476)
Repayments of long-term debt	1,665,051
Amortization of deferred amounts on refunding	(29,399)
Amortization of premiums	460,977
Change in net position of governmental activities	$ (1,736,679)

See Accompanying Notes to the Financial Statements

Mattawan Consolidated School
Fiduciary Funds
Statement of Assets and Liabilities
June 30, 2018

	Student Activities Agency Funds
Assets	
Cash	$ 446,985
Liabilities	
Accounts payable	$ 45,815
Due to agency fund activities	401,170
Total liabilities	$ 446,985

See Accompanying Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Mattawan Consolidated School (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity

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

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district–wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position is reported in three parts (1) net invested in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from current year activities.

Fund Financial Statements

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

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

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

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

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

2015 & 2017 Capital Project Funds – Capital Project Funds are used to record bond proceeds or other revenue and the disbursement of invoices specifically for acquiring new school sites, buildings, equipment, and for remodeling and repairs. The funds are kept open until the purpose for which the fund was created has been accomplished.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include the Food Service Fund. Operating deficits generated by these activities are generally transferred from the General Fund.

Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Agency Fund – The School District presently maintains the Student Activities Agency Fund to record the transactions of student groups for the school and school-related purposes. The funds are segregated and held in trust for the students.

Assets, Liabilities and Net Position or Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Property taxes and other receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2018, the rates are as follows per $1,000 of assessed value.

General Fund	
Non-principal residence exemption	18.00000
Commercial personal property	6.00000
Debt Service Funds	6.55000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries.

Property taxes are levied on December 1 and payable through March 15. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the County of Van Buren and Kalamazoo and remitted to the School District by May 15.

Investments – The School District carries investments at fair value.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories on governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both the district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their acquisition value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of $5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20–50 years
Equipment and furniture	5–10 years
Buses and other vehicles	5–10 years

Deferred Outflows of Resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. Deferred amounts on bond refunding are included in the district-wide financial statements. The amounts represent the difference between the reacquisition price and the net carrying amount of the prior debt. For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. The School District also reported deferred outflows of resources for pension and OPEB contributions made after the measurement date. This amount will reduce the net pension and OPEB liabilities in the following year.

Compensated Absences – Employees are provided with sick days each year. Retiring employees who meet certain years of service requirements are paid for accumulated sick days up to a maximum number of days and at a rate determined by their contracts. There is no contractual provision for payment of unused vacation. Unused vacation time is forfeited annually.

The liability for compensated absences reported in the district-wide financial statements consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for employees who currently are eligible to receive termination payments. The amount reported is salary-related and includes fringe benefits.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, are deferred and amortized over the life of the bonds using the straight-line method, which is not materially different than the interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

In the School District's fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

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

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

Deferred Inflows of Resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to MPSERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Education or the Assistant Superintendent for Business Services. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the School District's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

The School District has adopted a policy to maintain a minimum fund balance of 5% of the General Fund annual operating expenditures.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Eliminations and Reclassifications
In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards
Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

Statement No. 85, *Omnibus 2017* addresses practice issues that were identified during implementation and application of certain GASB Statements. This statement covers issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which is effective for the fiscal year ending June 30, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The statement provides uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irremovable trust for the purpose of extinguishing that debt were acquired. The effective date is for the fiscal year ending June 30, 2018.

Upcoming Accounting and Reporting Changes

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 87, *Leases* increases the usefulness of the District's 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 an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the District's leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the District's financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities districts should include when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

The School District is evaluating the above GASBs will have on its financial reporting.

Note 2 - Stewardship, Compliance, Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations.

Excess of Expenditures over Appropriations
The School District did not have significant expenditure budget variances.

Compliance – Bond Proceeds
The Capital Project Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, management believes the School District has complied, in all material respects, with the applicable provisions of Section 1351a of the Revised School Code.

The following is a summary of the revenue and expenditures in the 2015 and 2017 Capital Project Funds from inception through the current fiscal year:

	2015 Capital Projects	2017 Capital Projects
Revenues	$ 60,549,710	$ 20,996,315
Expenditures	59,188,059	10,815,044
	$ 1,361,651	$ 10,181,271

Note 3 - Deposits and Investments

The School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	$ 5,508,109	$ 446,985	$ 5,955,094
Investments	12,786,322	-	12,786,322
Total	$ 18,294,431	$ 446,985	$ 18,741,416

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

Deposits (checking, savings accounts, and certificates of deposit)	$ 5,953,824
Investments in securities, mutual funds, money markets, and similar vehicles	12,786,322
Petty cash and cash on hand	1,270
Total	$ 18,741,416

As of year-end, the School District had the following investments:

Investment	Fair Value	Maturities	Rating	Rating Organization
Federated Government Obligations Fund	$ 4,888,207	N/A	AAAm	S & P
Federal Home Loan Mortgage Corporation Series 2790	84,309	6/25/2025	AA+	S & P
Federal Home Loan Mortgage Corporation Series 4325	864,596	4/15/2026	AA+	S & P
Ford Motor Credit Company Discounted Commercial Paper	4,966,950	10/5/2018	A-2	S & P
Credit Suisse New Discounted Commercial Paper	1,982,260	11/9/2018	AA+	S & P
	$ 12,786,322			

Interest rate risk – The School District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

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

Concentration of credit risk – The School District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year-end, $7,769,694 of the School District's bank balances of $8,122,102 were uncollateralized and uninsured.

Custodial Credit Risk – Investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2018, none of the School District's investments were exposed to custodial credit risk.

Note 4 - Fair Value Measurements

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The School District has the following recurring fair value measurements as of June 30, 2018:

- Amounts invested in money market securities backed by federated government obligations in the amount of $4,888,207 are valued using quoted market prices (Level 1 inputs).
- Asset backed securities, primarily invested with Federal Government Mortgage Loans (Fannie Mae) and (Freddie Mac), of $948,905 Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset (Level 2 inputs).
- Commercial paper of $6,949,210 are valued using quoted prices for identical or similar assets or liabilities in non-active markets (Level 2 inputs).

Note 5 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 740,429	$ -	$ -	$ 740,429
Construction in progress	27,684,425	17,917,701	25,843,930	19,758,196
Total capital assets not being depreciated	28,424,854	17,917,701	25,843,930	20,498,625
Capital assets being depreciated				
Buildings and additions	44,094,760	30,062,015	-	74,156,775
Equipment and furniture	9,698,478	1,921,092	3,333	11,616,237
Buses and other vehicles	3,420,879	366,839	162,378	3,625,340
Total capital assets being depreciated	57,214,117	32,349,946	165,711	89,398,352
Less accumulated depreciation for				
Buildings and additions	16,481,621	2,022,507	-	18,504,128
Equipment and furniture	7,073,997	929,439	3,333	8,000,103
Buses and other vehicles	2,187,278	185,977	146,140	2,227,115
Total accumulated depreciation	25,742,896	3,137,923	149,473	28,731,346
Net capital assets being depreciated	31,471,221	29,212,023	16,238	60,667,006
Net capital assets	$ 59,896,075	$ 47,129,724	$ 25,860,168	$ 81,165,631

Depreciation for the fiscal year ended June 30, 2018 amounted to $3,137,923. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Note 6 - Interfund Transfers

Interfund transfers consist of the following:

	Transfers Out
	Nonmajor Governmental Funds
Transfers In	
Nonmajor Governmental Funds	$ 2,388

The transfer between the nonmajor governmental funds was to close out debt service funds that concluded in the current year.

Note 7 - Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue are as follows:

	Unearned
Student lunch payments on account	$ 31,362
Grant and categorical aid payments received prior to meeting all eligibility requirements	23,369
Prepaid program tuition	19,300
Total	$ 74,031

Note 8 - State Aid Anticipation Note

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th.

Short-term debt activity for the year was as follows:

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	$ 2,454,113	$ 4,500,000	$ 4,114,388	$ 2,839,725

Note 9 - Leases

Capital Leases

The School District has a capital lease for copiers. The future minimum lease payments are as follows:

Year ending June 30,	
2019	$ 46,815
Less amount representing interest	580
Present value of minimum lease payments	$ 46,235

The assets acquired through capital leases are as follows:	
Machinery and equipment	$ 289,486
Less accumulated depreciation	260,538
Total	$ 28,948

Note 10 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
General obligation bonds	$ 61,315,000	$ 20,400,000	$ 1,605,000	$ 80,110,000	$ 2,265,000
Capital lease - equipment	106,286	-	60,051	46,235	46,235
Compensated absences	290,563	11,775	2,910	299,428	2,910
Premium on bonds	7,797,883	361,476	460,977	7,698,382	-
Total	$ 69,509,732	$ 20,773,251	$ 2,128,938	$ 88,154,045	$ 2,314,145

For governmental activities, capital leases, and compensated absences are primarily liquidated by the General Fund.

General obligation bonds payable at year end, consist of the following:

$10,495,000 2015 Refunding serial bonds due in annual installments of $1,050,000 to $1,215,000 through 2025, interest at 4.00% to 5.00%.	$ 7,860,000
$52,500,000 2015 School Building and Equipment Serial bonds due in annual installments of $600,000 to $4,220,000 through 2039, interest at 4.00% to 5.00%.	51,850,000
$20,400,000 2017 School Building and Equipment Serial bonds due in annual installments of $450,000 to $1,375,000 through 2042, interest at 3.00% to 4.00%.	20,400,000
Total general obligation bonded debt	$ 80,110,000

Future principal and interest requirements for bonded debt are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2019	$ 2,265,000	$ 3,510,956	$ 5,775,956
2020	2,380,000	3,412,706	5,792,706
2021	2,475,000	3,310,206	5,785,206
2022	2,580,000	3,216,206	5,796,206
2023	2,690,000	3,118,256	5,808,256
2024 – 2028	15,235,000	13,908,581	29,143,581
2029 – 2033	19,135,000	10,174,531	29,309,531
2034 – 2038	23,880,000	5,373,969	29,253,969
2039 – 2042	9,470,000	686,938	10,156,938
Total	$ 80,110,000	$ 46,712,349	$ 126,822,349

The general obligation bonds are payable from the Debt Service Funds. As of year end, the fund had a balance of $2,348,909 to pay this debt. Future debt and interest will be payable from future tax levies.

Interest expenditures for the fiscal year in the General Fund, 2017 Capital Projects Fund, and Debt Service Funds were $6,844, $461,242, and $3,448,225, respectively.

Compensated Absences

Accrued compensated absence liability at year end is $299,428. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Deferred Amount on Refunding

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt. This amount is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2025.

The deferred amount of refunding activity is summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Deferred amount on refunding	$ 235,196	$ -	$ 29,399	$ 205,797	$ -

Note 11 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The School District has purchased commercial insurance for general liability, property and casualty and health and vision claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District had no unemployment compensation expense for the year ended June 30, 2018. No provision has been made for possible future claims.

The School District has elected to pay for dental insurance on a self-insured basis but has an independent third party that acts as the administrator on its behalf. Under this method, the School District pays based on actual claims against the plan. At June 30, 2018 the School District has recorded a liability in the amount of $30,502, which represents claims submitted and unpaid at that date. For governmental activities, the liability for dental benefits is primarily liquidated by the General Fund.

Note 12 - 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 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.

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

Pension Contribution Rates

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

Required contributions to the pension plan from the School District were $4,509,071 for the year ending September 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2018, the School District reported a liability of $49,817,805 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. The School District's proportion of the net pension

liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was .001922 percent, which was an increase of .000011 percent from its proportion measured as of September 30, 2016. At September 30, 2017, the total pension expense for the School District was $5,195,299.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Difference between expected and actual experience	$ 432,951	$ (244,446)	$ 188,505
Changes of assumptions	5,457,936	-	5,457,936
Net difference between projected and actual earnings on pension plan investments	-	(2,381,619)	(2,381,619)
Changes in proportion and differences between the School District contributions and proportionate share of contributions	630,419	(660,363)	(29,944)
To be recognized in future	6,521,306	(3,286,428)	3,234,878
School District contributions subsequent to the measurement date	4,430,276	(2,001,651)	2,428,625
	$ 10,951,582	$ (5,288,079)	$ 5,663,503

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

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future Pension Expenses)	
2019	$ 939,174
2020	1,709,245
2021	659,904
2022	(73,445)
Total	$ 3,234,878

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2016
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of Return:
    - MIP and Basic Plans (Non-Hybrid): 7.5%
    - Pension Plus Plan (Hybrid): 7.0%

- Projected Salary Increases: 3.5 – 12.3%, including wage inflation at 3.5%
- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.5188

Recognition period for assets in years is 5.0000

Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets

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

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

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

Rate of Return

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

Discount Rate
A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate
The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for the Hybrid Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease (Non-Hybrid/Hybrid)* 6.5% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 7.5% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 8.5% / 8.0%
$ 64,896,030	$ 49,817,805	$ 37,122,900

**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 on the ORS website at www.michigan.gov/orsschools.

Payables to the Michigan Public School Employees' Retirement System (MPSERS)
There were no significant payables to the pension plan that are not ordinary accruals to the School District.

Note 13 - Postemployment Benefits Other Than Pensions (OPEB)

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

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

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

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

Benefits Provided
Benefit provisions of the 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. 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.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.0%	5.91%
Personal Healthcare Fund (PHF)	0.0%	5.69%

Required contributions to the OPEB plan from the School District were $1,497,228 for the year ended September 30, 2017.

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

At June 30, 2018, the School District reported a liability of $17,030,111 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. The 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, the School District's proportion was .001923 percent, which was an increase of .000012 percent from its proportion measured as of September 30, 2016. At September 30, 2017, the total OPEB expense for the School District was $1,139,273.

At June 30, 2018, the 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	Total
Difference between expected and actual experience	$ -	$ (181,321)	$ (181,321)
Net difference between projected and actual earnings on OPEB plan investments	-	(394,421)	(394,421)
Changes in proportion and differences between the School District contributions and	760	-	760
To be recognized in future	760	(575,742)	(574,982)
School District contributions subsequent to the measurement date	1,057,770	-	1,057,770
	$ 1,058,530	$ (575,742)	$ 482,788

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

Deferred (Inflow) of Resources by Year (To Be Recognized in Future OPEB Expenses)		
2018	$	(138,959)
2019		(138,959)
2020		(138,959)
2021		(138,959)
2022		(19,146)
Total	$	(574,982)

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

Additional information as of the latest actuarial valuation follows:

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

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

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.4744

Recognition period for assets in years is 5.0000

Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

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

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

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

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

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

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate
The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
$ 19,947,183	$ 17,030,111	$ 14,554,431

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

1% Decrease 6.5%	Current Healthcare Cost Trend Rate 7.5%	1% Increase 8.5%
$ 14,442,215	$ 17,030,111	$ 19,991,196

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

Payables to the OPEB Plan
There were no significant payables to the OPEB plan that are not ordinary accruals to the School District.

Note 14 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Note 15 - Tax Abatements

The School District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions granted by Antwerp Township. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities.

For the fiscal year ended June 30, 2018, the School District's property tax revenues were reduced by $438,915 under these programs.

There are no significant abatements made by the School District.

Note 16 - Adoption of New Accounting Standards

As indicated in Note 1, the School District has adopted Governmental Accounting Standards Board Statement 75. This required the School District to record their proportionate share of the net OPEB liability and OPEB expense. Previously, these amounts were not recorded on the School District's statements. The standards require this change to be applied retroactively. The impact of this change is to reduce beginning net position in the statement of activities as of July 1, 2017 by $16,449,013, restating it from ($32,950,925) to ($49,399,938).

Note 17 - Subsequent Events

On October 17, 2018, the School District entered into a purchase agreement to receive $17,130,000 in general obligation bonds for school building and site purposes. The interest rate on the bonds ranges from 4.00% to 5.00%, and is to be paid through May 1, 2029. The delivery date on these bonds has not yet occurred.

Mattawan Consolidated School
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Over
	Original	Final	Actual	(Under) Budget
Revenues				
Local sources	$ 2,383,370	$ 2,509,101	$ 2,503,688	$ (5,413)
State sources	30,671,152	30,941,892	30,931,623	(10,269)
Federal sources	294,340	323,182	287,951	(35,231)
Interdistrict sources	234,452	262,988	263,454	466
Total revenues	33,583,314	34,037,163	33,986,716	(50,447)
Expenditures				
Instruction				
Basic programs	17,972,003	18,575,015	18,498,912	(76,103)
Added needs	3,438,779	3,348,601	3,268,744	(79,857)
Supporting services				
Pupil	1,159,612	1,233,033	1,228,337	(4,696)
Instructional staff	1,577,701	1,683,919	1,640,854	(43,065)
General administration	442,826	437,447	419,061	(18,386)
School administration	1,904,915	1,881,985	1,846,336	(35,649)
Business	585,759	536,399	542,021	5,622
Operations and maintenance	2,720,218	2,979,553	2,909,116	(70,437)
Pupil transportation services	1,994,560	2,194,196	2,139,848	(54,348)
Central	1,165,033	1,158,270	1,113,588	(44,682)
Athletic activities	117,158	108,641	96,438	(12,203)
Capital outlay	162,071	222,541	173,153	(49,388)
Debt service				
Interest and fiscal charges	9,000	6,844	6,844	-
Total expenditures	33,249,635	34,366,444	33,883,252	(483,192)
Excess (deficiency) of revenues over expenditures	333,679	(329,281)	103,464	432,745

Mattawan Consolidated School
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Over (Under)
	Original	Final	Actual	Budget
Other Financing Sources				
Proceeds from sale of capital assets	$ -	$ 4,000	$ 4,000	$ -
Net change in fund balance	333,679	(325,281)	107,464	432,745
Fund balance – beginning	2,826,361	2,826,361	2,826,361	-
Fund balance – ending	$ 3,160,040	$ 2,501,080	$ 2,933,825	$ 432,745

Mattawan Consolidated School

Required Supplementary Information

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

Michigan Public School Employees Retirement Plan

Last 10 Fiscal Years (Measurement Date September 30th, of Each June Fiscal Year)

		2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A.	Reporting unit's proportion of net pension liability (%)	0.19220%	0.19110%	0.19570%	0.19143%						
B.	Reporting unit's proportionate share of net pension liability	$ 49,817,805	$ 47,671,789	$ 47,808,399	$ 42,165,934						
C.	Reporting unit's covered-employee payroll	$ 16,275,007	$ 15,977,754	$ 17,060,415	$ 16,922,472						
D.	Reporting unit's proportionate share of net pension liability as a percentage of its covered- employee payroll	306.10%	298.36%	280.23%	249.17%						
E.	Plan fiduciary net position as a percentage of total pension liability	64.21%	63.27%	63.17%	66.20%						

Note Disclosures

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2017.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2017.

Mattawan Consolidated School
Required Supplementary Information
Schedule of the School District's Pension Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

		For the Years Ended June 30,									
		2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A.	Statutorily required contributions	$ 5,079,671	$ 3,157,388	$ 3,168,504	$ 3,557,607						
B.	Contributions in relation to statutorily required contributions	5,079,671	3,157,388	3,168,504	3,557,607						
C.	Contribution deficiency (excess)	$ -	$ -	$ -	$ -						
D.	Reporting unit's covered-employee payroll	$ 16,408,325	$ 16,794,665	$ 17,099,573	$ 17,131,624						
E.	Contributions as a percentage of covered-employee payroll	30.96%	18.80%	18.53%	20.77%						

Mattawan Consolidated School

Required Supplementary Information

Schedule of the School District's Proportionate Share of the Net OPEB Liability

Michigan Public School Employees Retirement Plan

Last 10 Fiscal Years (Measurement Date September 30th, of Each June Fiscal Year)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. Reporting unit's proportion of net OPEB liability (%)	0.1923%									
B. Reporting unit's proportionate share of net OPEB liability	$ 17,030,111									
C. Reporting unit's covered-employee payroll	$ 16,275,007									
D. Reporting unit's proportionate share of net OPEB liability as a percentage of its covered- employee payroll	104.64%									
E. Plan fiduciary net position as a percentage of total OPEB liability	36.39%									

Note Disclosures

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2017.
Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2017.

Mattawan Consolidated School

Required Supplementary Information
Schedule of the School District's OPEB Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

	For the Years Ended June 30									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. Statutorily required contributions	$ 1,260,986	$ 3,157,388	$ 3,168,504	$ 3,557,607						
B. Contributions in relation to statutorily required contributions	1,260,986	3,157,388	3,168,504	3,557,607						
C. Contribution deficiency (excess)	$ -	$ -	$ -	$ -						
D. Reporting unit's covered-employee payroll	$ 16,408,325	$ 16,794,665	$ 17,099,573	$ 17,131,624						
E. Contributions as a percentage of covered-employee payroll	7.69%	18.80%	18.53%	20.77%						

Mattawan Consolidated School
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2018

	Special Revenue Fund	Debt Service Funds					Total Nonmajor Govern- mental Funds
	Food Service	2012 Refunding Bond	2012 Bond Issue	2015 Refunding Bond	2015 Bond Issue	2017 Bond Issue	
Assets							
Cash	$ 118,468	$ -	$ 87,637	$ 285,321	$ 1,576,496	$ 399,455	$ 2,467,377
Accounts receivable	472	-	-	-	-	-	472
Due from other governmental units	10,581	-	-	-	-	-	10,581
Inventory	21,123	-	-	-	-	-	21,123
Total assets	$ 150,644	$ -	$ 87,637	$ 285,321	$ 1,576,496	$ 399,455	$ 2,499,553
Liabilities							
Accounts payable	$ 19,364	$ -	$ -	$ -	$ -	$ -	$ 19,364
Accrued expenditures	9,189	-	-	-	-	-	9,189
Accrued salaries payable	240	-	-	-	-	-	240
Unearned revenue	31,362	-	-	-	-	-	31,362
Total liabilities	60,155	-	-	-	-	-	60,155
Fund Balance							
Nonspendable							
Inventory	21,123	-	-	-	-	-	21,123
Restricted for							
Food service	69,366	-	-	-	-	-	69,366
Debt service	-	-	87,637	285,321	1,576,496	399,455	2,348,909
Total fund balance	90,489	-	87,637	285,321	1,576,496	399,455	2,439,398
Total liabilities and fund balance	$ 150,644	$ -	$ 87,637	$ 285,321	$ 1,576,496	$ 399,455	$ 2,499,553

Mattawan Consolidated School

Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

	Special Revenue Fund	Debt Service Funds					Total Nonmajor Govern-mental Funds
	Food Service	2012 Refunding Bond	2012 Bond Issue	2015 Refunding Bond	2015 Bond Issue	2017 Bond Issue	
Revenues							
Local sources	$ 764,855	$ -	$ 656,719	$ 1,289,285	$ 2,520,949	$ 915,980	$ 6,147,788
State sources	66,935	-	3,441	6,753	13,205	-	90,334
Federal sources	499,582	-	-	-	-	-	499,582
Total revenues	1,331,372	-	660,160	1,296,038	2,534,154	915,980	6,737,704
Expenditures							
Current							
Education							
Food services	1,295,008	-	-	-	-	-	1,295,008
Debt service							
Principal	-	-	750,000	855,000	-	-	1,605,000
Interest and other expenditures	-	-	22,650	381,850	2,527,200	516,525	3,448,225
Total expenditures	1,295,008	-	772,650	1,236,850	2,527,200	516,525	6,348,233
Excess (deficiency) of revenues over expenditures	36,364	-	(112,490)	59,188	6,954	399,455	389,471
Other Financing Sources (Uses)							
Transfers in	-	-	2,388	-	-	-	2,388
Transfers out	-	(2,388)	-	-	-	-	(2,388)
Total other financing sources (uses)	-	(2,388)	2,388	-	-	-	-
Net change in fund balance	36,364	(2,388)	(110,102)	59,188	6,954	399,455	389,471
Fund balance – beginning	54,125	2,388	197,739	226,133	1,569,542	-	2,049,927
Fund balance – ending	$ 90,489	$ -	$ 87,637	$ 285,321	$ 1,576,496	$ 399,455	$ 2,439,398

Mattawan Consolidated School
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2018

Year Ending June 30,	2015 Debt Refunding	2015 Debt Principal	2017 Debt Principal	Total
2019	$ 1,215,000	$ 600,000	$ 450,000	$ 2,265,000
2020	1,205,000	700,000	475,000	2,380,000
2021	1,205,000	770,000	500,000	2,475,000
2022	1,070,000	985,000	525,000	2,580,000
2023	1,060,000	1,080,000	550,000	2,690,000
2024	1,055,000	1,175,000	550,000	2,780,000
2025	1,050,000	1,270,000	575,000	2,895,000
2026	-	2,315,000	725,000	3,040,000
2027	-	2,435,000	750,000	3,185,000
2028	-	2,560,000	775,000	3,335,000
2029	-	2,690,000	800,000	3,490,000
2030	-	2,825,000	825,000	3,650,000
2031	-	2,970,000	850,000	3,820,000
2032	-	3,125,000	875,000	4,000,000
2033	-	3,275,000	900,000	4,175,000
2034	-	3,435,000	925,000	4,360,000
2035	-	3,600,000	950,000	4,550,000
2036	-	3,765,000	1,000,000	4,765,000
2037	-	3,940,000	1,050,000	4,990,000
2038	-	4,115,000	1,100,000	5,215,000
2039	-	4,220,000	1,225,000	5,445,000
2040	-	-	1,300,000	1,300,000
2041	-	-	1,350,000	1,350,000
2042	-	-	1,375,000	1,375,000
Total	$ 7,860,000	$ 51,850,000	$ 20,400,000	$ 80,110,000
Principal payments due	May 1	May 1	May 1	
Interest payments due	May 1 and November	May 1 and November	May 1 and November	
Interest rate	4.00% to 5.00%	3.00% to 5.00%	3.00% to 4.00%	
Original issue	$ 10,495,000	$ 52,500,000	$ 20,400,000	

Mattawan Consolidated School

Single Audit

June 30, 2018

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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*

Independent Auditors' Report

Management and the Board of Education
Mattawan Consolidated School
Mattawan, Michigan

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

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a material weakness.

Compliance and Other Matters

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

Mattawan Consolidated School's Response to Findings and Corrective Action Plan

Mattawan Consolidated School's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. Mattawan Consolidated School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Yeo & Yeo, P.C.

Kalamazoo, Michigan
October 30, 2018

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Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditors' Report

Management and the Board of Education
Mattawan Consolidated School
Mattawan, Michigan

Report on Compliance for Each Major Federal Program

We have audited Mattawan Consolidated School's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Mattawan Consolidated School's major federal programs for the year ended June 30, 2018. Mattawan Consolidated School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Mattawan Consolidated School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mattawan Consolidated School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Mattawan Consolidated School's compliance.

Opinion on Each Major Federal Program

In our opinion, Mattawan Consolidated School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of Mattawan Consolidated School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Mattawan Consolidated School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mattawan Consolidated School's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mattawan Consolidated School, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Mattawan Consolidated School's basic financial statements. We issued our report thereon dated October 30, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Yeo & Yeo, P.C.

Kalamazoo, Michigan
October 30, 2018

Mattawan Consolidated School
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor Pass-Through Grantor Program or Cluster Title	Grant/ Project Number	Federal CFDA Number	Approved Grant Amount	Accrued (Unearned) Revenue July 1, 2017	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Adjustments	Accrued (Unearned) Revenue June 30, 2018
U.S. Department of Agriculture									
Passed through Michigan Department of Education									
Child Nutrition Cluster									
School Breakfast Program	171970	10.553	$ 51,547	$ -	$ 44,708	$ 6,838	$ 6,838	$ -	$ -
School Breakfast Program	181970	10.553	42,677	-	-	42,677	42,677	-	-
Total School Breakfast Program				-	44,708	49,515	49,515	-	-
National School Lunch Program	171960	10.555	322,579	-	273,545	49,034	49,034	-	-
National School Lunch Program	181960	10.555	310,578	-	-	310,578	310,578	-	-
National School Lunch Program - Entitlement	N/A	10.555	84,741	-	-	84,741	84,741	-	-
Total National School Lunch Program				-	273,545	444,353	444,353	-	-
Summer Food Service Program for Children - Administration	170900	10.559	4,799	-	-	4,799	4,799	-	-
Summer Food Service Program for Children - Operating	171900	10.559	415	-	-	415	415	-	-
				-	-	5,214	5,214	-	-
Total Child Nutrition Cluster				-	318,253	499,082	499,082	-	-
Healthier US School Challenge: Smarter Lunchrooms		10.543	500	-	-	500	500	-	-
Total U.S. Department of Agriculture				-	318,253	499,582	499,582	-	-
U.S. Department of Education									
Passed through Michigan Department of Education									
Title I Grants to Local Education Agencies	171530	84.010	226,110	101,259	224,110	-	101,259	-	-
Title I Grants to Local Education Agencies	181530	84.010	221,631	-	-	219,631	146,475	-	73,156
Total Title I Grants to Local Education Agencies				101,259	224,110	219,631	247,734	-	73,156
Passed through Michigan Department of Education									
Supporting Effective Instruction State Grants	170520	84.367	72,603	19,646	60,590	-	19,646	-	-
Supporting Effective Instruction State Grants	180520	84.367	88,165	-	-	62,560	45,391	-	17,169
Total Supporting Effective Instruction State Grants				19,646	60,590	62,560	65,037	-	17,169
Passed through Michigan Department of Education									
English Language Acquisition State Grants	180570	84.365	11,162	-	-	2,622	-	-	2,622
Passed through Michigan Department of Education									
Student Support and Academic Enrichment Program	180750	84.424	10,000	-	-	2,472	-	-	2,472
Total U.S. Department of Education				120,905	284,700	287,285	312,771	-	95,419
U.S. Department of Health and Human Services									
Passed through Van Buren Intermediate School District									
Medical Assistance Program		93.778	666	-	-	666	666	-	-
Total U.S. Department of Health and Human Services				-	-	666	666	-	-
Total Federal awards				$ 120,905	$ 602,953	$ 787,533	$ 813,019	$ -	$ 95,419

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Mattawan Consolidated School under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Mattawan Consolidated School, it is not intended to and does not present the financial position and changes in net position of Mattawan Consolidated School.

Note 2 - Summary of Significant Accounting Policies

Expenditures

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, where certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

Mattawan Consolidated School has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Reconciliation to the Financial Statements

The federal revenues per the financial statements are in agreement with the schedule of expenditures of federal awards.

Note 4 - Subrecipients

No amounts were provided to subrecipients.

Note 5 - Michigan Department of Education Disclosures

The federal amounts report on the grant auditors report are in agreement with the schedule of expenditures of federal awards.

The amounts reported on the recipient entitlement balance report agree with the schedule of expenditures of federal wares for the U.S.D.A donated food commodities.

Mattawan Consolidated School
Schedule of Findings and Questioned Costs
June 30, 2018

Section I – Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements were prepared in accordance with Generally Accepted Accounting Principles: Unmodified

Internal control over financial reporting:

• Material weakness(es) identified?	X	Yes		No
• Significant deficiency(ies) identified		Yes	X	None reported
• Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major federal programs:

• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified		Yes	X	None reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?		Yes	X	No

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553, 10.555, 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs: $ 750,000

Auditee qualified as low-risk auditee?		Yes	X	No

Section II – *Government Auditing Standards* Findings

2018-001 Audit Entries Required – Material Weakness

Specific requirement: Management is responsible for reporting reliable financial data in accordance with Generally Accepted Accounting Principles.

Condition: Adjusting journal entries were required so the financial statements were not materially misstated. A material adjustment was required as follows:

The School District did not identify over $10.3 million in capital expenditures made during the fiscal year, relating to the new 2017 capital projects fund, that should have been included in capital assets at fiscal year end.

Cause: A material journal entry was not detected by the School District's internal controls over financial reporting.

Effect: A material journal entry was recorded in the District-Wide financial statements to properly reflect all additions to capital assets as of fiscal year end.

Recommendations: We recommend the School District thoroughly review and reconcile fixed asset activity at each fiscal year end.

Views of responsible officials: Management believes these were oversights and is in agreement with the proposed audit adjustment.

Corrective action plan: See the attached corrective action plan.

Section III – Federal Award Findings

There were no findings or questioned costs for Federal Awards for the year ended June 30, 2018.

Section IV – Prior Audit Findings

Government Auditing Standards Findings

There were no *Government Auditing Standards* findings for the year ended June 30, 2017.

Federal Award Findings

There were no findings or questioned costs for Federal Awards for the year ended June 30, 2017.

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Mattawan Consolidated Schools
Financial Statements Finding Response

2018-001 Audit Entries Required

Management Response:
The Director of Finance and the Superintendent will review the procedures regarding the year end process for Fixed Assets. The Accounting Supervisor will verify that all funds are included in the fixed asset schedule and related GASB entries. The Director of Finance will review the schedule for completeness. Management will also verify that the schedule is complete and includes all related funds.

Respectfully submitted by

Robin K. Buchler

Robin Buchler
Superintendent

MATTAWAN CONSOLIDATED SCHOOL
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October 30, 2018

Management and the Board of Education
Mattawan Consolidated School
Mattawan, Michigan

We have completed our audit of the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Mattawan Consolidated School as of and for the year ended June 30, 2018, and have issued our report dated October 30, 2018. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated June 1, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 of the financial statements. The School District has adopted the new Governmental Accounting Standards Board Statements as noted in the notes to the financial statements, effective July 1, 2017.

We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Net OPEB liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

We have evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole and free from bias.
Disclosures in the financial statements are neutral, consistent and clear.

Accounting Standards and Regulatory Updates

Accounting Standards

The Governmental Accounting Standards Board has released the following Statements:

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The criteria generally is on (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 87, *Leases* increases the usefulness of the District's 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 an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the District's leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the District's financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities districts should include when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

The School District is evaluating the impact the above pronouncements will have on its financial reporting.

Regulatory and Other Updates

Cybersecurity Posture

Cybersecurity posture, an overall measure of cybersecurity strength, is more prevalent than ever as organizations continue to face cybersecurity risks. Billions of emails are sent every day, some of which contain attachments with malicious files or malicious embedded links aimed at negatively impacting unsuspecting organizations. A recent study showed as many as four out of five U.S. companies have suffered from an attack. Not only can a successful attack cost thousands of dollars and put a strain on IT resources while remediation efforts are underway, but sensitive information may be breached.

Risk assessment is a first step in mitigating cybersecurity risks and improving your School District's overall cybersecurity posture. The National Institute of Standards and Technology published *Framework for Improving Critical Infrastructure Cybersecurity*, which "enables organizations, regardless of size, degree of cybersecurity risk, or cybersecurity sophistication, to apply the principles and best practices of risk management to improving the security and resilience of critical infrastructure." The framework is designed to cover five areas including identification, protection, detection, responsiveness and recovery. The publication can be found at www.nist.gov.

Placing significant emphasis on evaluating your School District's cybersecurity posture, and channeling sufficient resources towards proper risk assessment, implementation, and education will reduce the likelihood of a cybersecurity threat, and help lessen the impact of a breach.

Uniform Guidance – Implementation of Federal Grant Procurement Standards

In May 2017, the federal government granted an additional one-year delay for implementation of the procurement standards under the Uniform Guidance. The grace period now extends through December 25, 2017. Therefore entities with fiscal years beginning on or after December 26, 2017 must have procurement standards, for federal expenditures, that meet the more stringent requirements of 2 CFR 200.317 to 326. For school districts, it will apply to fiscal year 2019 and therefore, must be in place starting July 1, 2018. It is imperative that your procurement policies – whatever they are documented as – be followed. The Uniform Guidance and the old guidance in the OMB Circulars provide minimum requirements that must be covered by an entity's procurement policies. If an entity's policies are stricter than the federal rules, the entity policies still must be followed. As you adopt new procurement policies, we also recommend that you consider separate policies for federal and non-federal expenditures to ease the administrative burden of certain federal requirements.

Fiscal Year (FY) 2019 School Aid

The School Aid budget for FY 2019 was signed in June, 2018. Following are some significant highlights of the bill:

- The per pupil Foundation Grants for FY 2019 will increase by a range of $120 to $240 using the "2X formula." The increase will be added to the FY 2018 foundation grant resulting in the lowest foundation for FY 2018 being $7,871 and the maximum state guaranteed foundation being $8,409.
- The Pupil Membership Blend will remain at 90% of the current school year October count and 10% of the prior school year February count.
- The Section 31a At-Risk funding is maintained at $499,000,000. Eligibility expanded to include grades K-12, from K-3, and shall use resources to address early literacy and numeracy through an evidence-based framework that uses data-driven problem solving though a multi-tiered system of supports. Adds language that for schools in which more than 40% of pupils are identified as At-Risk, a district may use the funds it receives to implement schoolwide reforms that are guided by the district's comprehensive needs assessment and are included in the district improvement plan. Allows for up to 5% to be used for professional development.
- The per pupil funding under Section 20f will be equal to the per pupil funding in 2017-18.
- A New Section 31m has been created as a separate account to improve mental health and support services for K-12 pupils. A deposit of $30 million has been allocated for this purpose.
- A new Section 54d appropriates $5 million in grant funds for intermediate districts to provide pilot programs for children from birth to 3 years of age with developmental disability and/or delay.
- Section 147c has a MPSERS rate cap funding set at $1.03 billion, which is an increase of $72 million. The rate cap is estimated at $690 per pupil.

- Section 147e includes $37.6 million allocated as a direct reimbursement for additional retirement costs for specific qualified participants due to PA 92 of 2017.

Budget Assumptions & Early Warning
Each school district that has a general fund balance less than 5% of total unrestricted general revenue for either of the 2015-2016 or 2016-2017 school fiscal years is required to submit budget assumptions to the Center for Educational Performance and Information (CEPI).

Uniform Budgeting and Accounting Act (UBAA)
The UBAA establishes budget and accounting requirements for local governments and school districts, including public school academies. It also establishes oversight requirements for MDE as well as the Michigan Attorney General. Material violations of the UBAA, including but not limited to General Fund deficits, should be reported as financial statement findings in the audit report. UBAA states that if it becomes apparent during the year that the probable revenues will be less than the budgeted revenues, the fiscal officer shall present recommendations to the legislative body which, if fiscal adopted, would prevent expenditures from exceeding available revenues for the fiscal year. UBAA states that an officer of the school district shall not incur expenditures against an appropriation account in excess of the amount appropriated by the board. Noncompliance includes, but is not limited to, over-expending the budget authorized by the board. MDE is analyzing the General Fund only, and at the total revenues, expenditures and financing sources (uses) levels, rather than at the line item level. MDE has stated a 0% tolerance for UBAA noncompliance.

Current Operating Expenditures (COE) for UAAL
Effective FY 2019, the percentage change in Current Operating Expenditures (COE) from one year to the next will be used to adjust the payroll on which the UAAL rate is charged. FY 2017 reported payroll will be adjusted by the percent change in COE from 2016 to 2017 to establish the FY19 adjusted payroll. The capped UAAL rate of 20.96% continues to be used in the calculation. ORS has put examples on their website to walk the school district through the calculation.

- UAAL contributions will no longer be calculated on member wages reported throughout the FY.
- This did not affect the 2018 fiscal year, but will impact the 2019 fiscal year.
- The FY 2019 payment process for contributions will be spread out over all Employer Statements in State FY 2019 (October 2018 through September 2019).

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements.
Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

The following material misstatement was detected as a result of our audit procedures and corrected by management:

The School District did not identify over $10.3 million in capital expenditures made during the fiscal year, relating to the new 2017 capital projects fund, that should have been included in capital assets at fiscal year end.

There were no uncorrected misstatements that were more than trivial.

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 auditors' report. We are pleased to report we had no disagreements with management during the audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other 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 School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Emphasis of Matters in Independent Auditors' Report
Our report will include the following emphasis of matter paragraph:

> **Adoption of New Accounting Standards**
> As described in Note 1 to the financial statements, during the year ended June 30, 2018, the School District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Reports
Other information that is required to be reported to you is included in the: Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditors' Report on Compliance For Each Major Federal Program; Independent Auditors' Report on Internal Control Over Compliance; Independent Auditors' Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Report on Required Supplementary Information
With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, schedule of the school district's proportionate share of the net pension liability, schedule of the school district's pension contributions, schedule of the school district's proportionate share of the net OPEB liability, schedule of the school district's OPEB contributions, and budgetary comparison information, we 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 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.

Report on Other Supplementary Information
With respect to the other supplementary information accompanying the financial statements, 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 supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We discussed these matters with various personnel in the School District during the audit and with management. We would also be pleased to meet with you to discuss these matters at your convenience.

Restriction on Use

These communications are intended solely for the information and use of management, the Board of Education, and others within the School District, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Kalamazoo, Michigan