Elk Rapids Schools

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2018

Dennis, Gartland & Niergarth

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Management's Discussion and Analysis

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

Financial Highlights

- The liabilities and deferred inflows of resources of the District exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by ($11,153,081) resulting in a negative *net position.* Of this amount, *unrestricted net position* had a negative balance of ($23,437,912). This amount is primarily impacted by the District's $26,055,668 proportionate share of the MPSERS net pension and OPEB obligations. This liability recognition is now required by GASB 68 and 75 as explained in Notes K and L of the financial statements.

- The district's total net position decreased by ($14,316) from the June 30, 2017 net position.

- As of the close of the current fiscal year, the District's *governmental funds* reported combined ending fund balances of $2,988,846, a decrease of $1,529,821 in comparison with the prior year. This net decrease is mainly attributable to the spend-down of bond proceeds from the 2016 and 2017 capital project funds. See pages 8, 9, and 45 for the exact composition of this net decrease. Of the $2,988,846, approximately 34 percent, or $1,005,876 is *available for spending* at the government's discretion *(unassigned fund balance).*

- At the end of the current fiscal year, unassigned fund balance for the general fund was $1,005,876 or 8.4 percent of total general fund expenditures.

- Investments for the future were made by the spending of $1,551,231 on equipment and infrastructural improvements. Of this, the 2016 and 2017 Capital Project Funds invested $1,497,946 in new computers, furniture, buses, building additions, renovations and equipment upgrades.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues *(governmental activities).* The governmental activities of the District include instruction, support services, food service, and athletics. The District has no business-type activities as of and for the year ended June 30, 2018.

The government-wide financial statements can be found on pages 6 - 7 of this report.

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

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

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

The District maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and 2016 Capital Projects Fund which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements have been provided for the General Fund herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 8 - 10 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 11 - 12 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13 - 38 of this report.

Other information. The combining statements referred to earlier in connection with non-major governmental funds are presented following the notes to the financial statements. Combining fund statements can be found on pages 44 - 45 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows exceeded assets and deferred outflows by ($11,153,081) at the close of the most recent fiscal year.

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

District's Net position

	Governmental Activities	
	2018	2017*
Assets and Deferred Outflows of Resources		
Current and other assets	$ 4,897,579	$ 6,636,489
Capital assets, net	13,305,301	12,908,631
Total assets	18,202,880	19,545,120
Deferred outflows of resources	3,612,130	1,916,369
Total assets and deferred outflows of resources	$ 21,815,010	$ 21,461,489
Liabilities and Deferred Inflows of Resources		
Current liabilities	$ 3,136,542	$ 3,296,791
Long-term outstanding	28,311,933	22,310,384
Total liabilities	31,448,475	25,607,175
Deferred inflows of resources	1,519,616	264,095
Total liabilities and deferred inflows of resources	$ 32,968,091	$ 25,871,270
Net position		
Invested in capital assets, net of related debt	11,955,139	12,021,735
Restricted	329,692	274,083
Unrestricted	(23,437,912)	(16,705,599)
Total net position	**$(11,153,081)**	**$ (4,409,781)**

Other components of the District's net position include $224,672 for debt service, $59,969 for capital projects and $45,051 for food service. These represent resources that are subject to external restrictions on how they may be used. The component consisting of ($23,437,912) represents *unrestricted net position.*

The government's net position decreased by ($14,316) during the current fiscal year. See below for the major components of this decrease.

Included in the current fiscal year was foundation allowance funding, set by the State of Michigan, of $7,631 per student.

Within the past decade, the District's enrollment has ranged between 1,300 and 1,550 students.

District's Changes in Net position

	Governmental Activities	
	2018	2017*
Revenue		
Program revenue		
Charges for services	$ 633,009	$ 667,103
Operating grants/contributions	816,133	938,084
Capital grants/contributions	22,314	10,105
General revenue		
Property taxes	9,094,936	9,033,637
State school aid	3,247,076	3,049,952
Unrestricted investment earnings and other	585,069	653,916
Total Revenue	14,398,537	14,352,797
Expenses		
Instruction	7,662,062	7,690,521
Supporting services	4,317,231	4,249,299
Community services	322,330	292,794
Food services	487,990	493,014
Athletics	280,559	293,128
Depreciation – unallocated	1,154,561	1,165,363
Interest on long-term debt	73,777	83,397
Other	114,343	93,705
Total Expenses	14,412,853	14,361,221
Decrease in net position	**(14,316)**	**(8,424)**
Net position (restated), beginning of year	(11,138,765)	(4,401,357)
Net position, end of year	$ (11,153,081)	$ (4,409,781)

*The District implemented GASB 75 during the year ended June 30, 2018. The impact on expenses for the year ended June 30, 2017 is unknown and, therefore, expenses for 2018 and 2017 are not comparable.

Governmental activities. Net position decreased by ($14,316). Four key elements of this net decrease are as follows:

- The $1,125,000 *reduction* of 2016 and 2017 Bonded debt outstanding was offset by $1,154,561 of depreciation expense incurred from capital assets by $29,561. This provided a decrease in the equity attributable to the District's capital assets.
- Net position decreased by $33,078 due to the overall net increase in the combination of deferred outflows of resources, deferred inflows of resources and net pension and OPEB liability.
- Net position (excluding the effect of $33,722 in capitalized outlays) related to the general and special revenue funds increased by $63,003 due to net operating surpluses for the year.
- Net position increased by $20,442 due to the 2016 and 2017 debt service funds' revenues exceeding expenditures. This added revenue was collected to maintain recommended debt service fund levels in relation to scheduled subsequent year debt service requirements.

Financial Analysis of the District's Funds

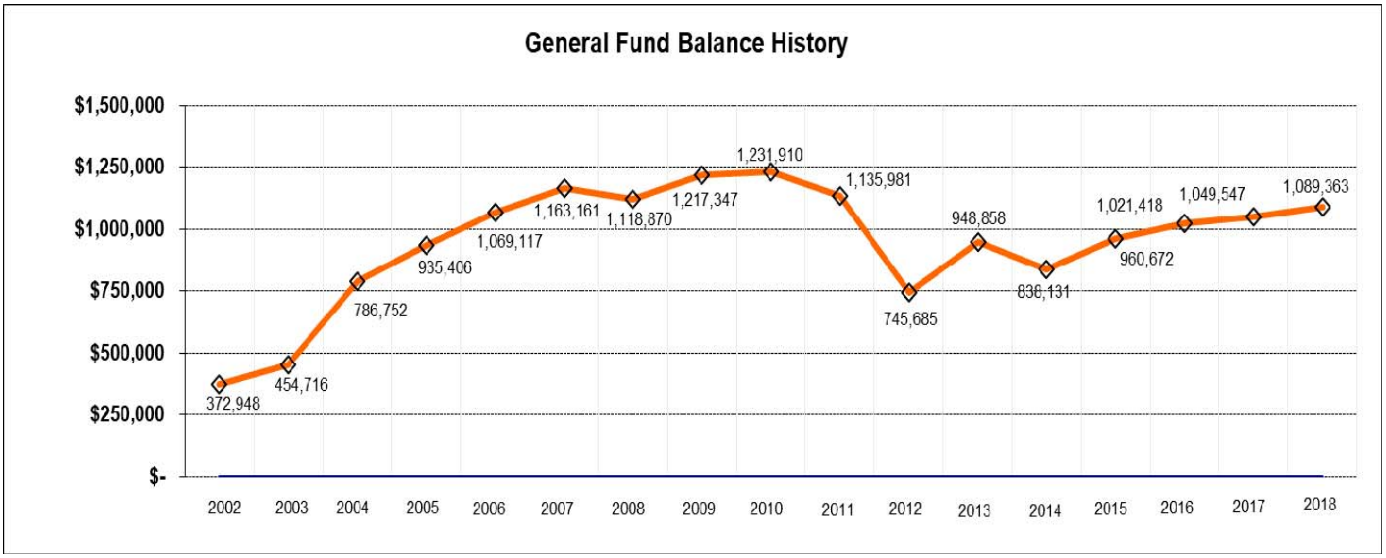
As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $2,988,846, a decrease of ($1,529,821) in comparison with the prior year. Approximately 34 percent of this total amount ($1,005,876) constitutes *unassigned fund balance,* which is available for spending at the District's discretion. The remainder of fund balance is *non-spendable, restricted* or *assigned* to indicate that it is not available for new spending because the underlying assets are not available for current expenditures. This is because they are included as capital projects, school-based services and debt service fund accounts.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was $1,005,876. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents approximately 8.4 percent of total general fund expenditures.

The fund balance of the District's general fund increased by $39,816 during the current fiscal year.



The Food Service Fund has a total fund balance of $45,051, which increased by $4,901.

The Athletics Fund has a total fund balance of $6,149, which increased by $53.

The Preschool & Kid's Club Fund has a total fund balance of $71,236, which decreased by ($15,489).

The 2016 Debt Service fund had a total fund balance of $223,419, which increased by $9,883.

The 2017 Debt Service fund had a total fund balance of $10,559, which increased by $10,559.

The Athletics Complex Fund has a total fund balance of $2,163, which decreased by ($4,691).

The Yuba School capital project fund has a total fund balance of $124. This fund was created to account for monetary and in-kind donations directed at restoring the district-owned Yuba School in Acme Township.

The 2016 School Improvement capital project fund had a total fund balance of $1,194,567. This fund was created to account for the voter-approved improvements to technology, energy efficiency, learning environment and the bus fleet.

The 2017 School Improvement capital project fund had a total fund balance of $346,215. This fund was created to account for voter-approved improvements to the athletics complex.

General Fund Budgetary Highlights

Significant differences between the original and final amended budgets were partly due to actual enrollments coming in below projections. Additionally, taxable valuation changes occurring throughout the year caused revenue originally budgeted as State source to be reclassified as local revenues.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2018, amounted to $13,305,301 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment. The total increase in the District's investment in capital assets for the current fiscal year was 3.1 percent.

The major capital asset events during the current fiscal year were the following:

- $1,119,035 for building additions and renovations, site improvements, and furniture replacement. Funding was supported with bond proceeds from the 2016 and 2017 School Improvement Funds.
- $378,912 for technology, equipment, buses and energy efficiency upgrades. Funding was supported with bond proceeds from the 2016 School Improvement Fund.
- $8,639 for improvements to the Yuba School. Funding was provided entirely with fundraising and in-kind contributions.

District's Capital Assets
(net of depreciation)
June 30, 2018

	Governmental Activities
Land	$ 94,249
Buildings and building improvements	10,399,830
Machinery and equipment	1,034,109
Furniture and fixtures	602,408
Vehicles	695,355
Construction-in-progress	479,350
Total capital assets, net	$ 13,305,301

Additional information on the District's capital assets can be found in Note F on page 22 of this report.

Long-term debt. At the end of the current fiscal year, the District had 2016 School Improvement and 2017 School Improvement debts outstanding of $2,795,000. This bond issue is a general obligation-unlimited tax liability of the District. These bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax, levied without limitation as to rate or amount, on all taxable property within the District.

The District's total general obligation bonds payable decreased by $1,125,000 during the current fiscal year.

Additional information on the District's long-term debt can be found in Note G on page 23 of this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2018-19 fiscal year:

- Although currently approved, the State Aid Bill could be subject to adverse revisions later in the year. The ultimate State Aid Bill is expected to provide the District with per pupil funding that is materially close to the budget projection.

- Uncertainties related to enrollment counts continue to present budgeting challenges for all Michigan school districts. Careful attention to official pupil counts and interim tallies is undertaken to assist with trending projections needed for budget forecasting.

- Economic uncertainty affecting the State of Michigan could result in insufficient per-pupil increases in 2019-20. The impact from a funding freeze from 2018-19 levels would present very serious budgetary challenges for all districts. Spending decisions for 2018-19 are being made with consideration of potential 2019-20 funding issues.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, 707 E. Third Street, Elk Rapids, Michigan 49629.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Elk Rapids Schools

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the ***Elk Rapids Schools*** (the "School District") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Emphasis of Matter

Accounting Changes

As described in Note B to the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Finanical Reporting for Other Post-Employment Benefits Other Than Pensions*, during the year ended June 30, 2018.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *viii*, budgetary comparison information on page 40, the pension contribution schedules on page 41 and the OPEB contribution schedules on page 42 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining non-major fund financial statements are the responsibility of management and were 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 combining non-major fund financial statements are 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 11, 2018, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering the School District's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

October 11, 2018

Elk Rapids Schools

STATEMENT OF NET POSITION

June 30, 2018

	Governmental Activities
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
ASSETS	
Current assets	
Cash and cash equivalents	$ 4,065,554
Due from other governments	739,050
Accounts receivables	51,650
Inventory	9,838
Deposits	6,190
Prepaids	25,297
Total current assets	4,897,579
Non-current assets	
Capital assets, net of accumulated depreciation	13,305,301
Total assets	18,202,880
DEFERRED OUTFLOWS OF RESOURCES	
Pension obligation	3,249,004
OPEB obligation	363,126
Total deferred outflows of resources	3,612,130
Total assets and deferred outflows of resources	$ 21,815,010
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
LIABILITIES	
Current liabilities	
Accounts payable	$ 98,227
Salaries payable and related liabilities	1,434,794
Accrued expenses	120,714
Unearned revenue	264,304
Current portion of long-term liabilities	1,218,503
Total current liabilities	3,136,542
Non-current portion of long-term obligations	2,256,265
Net pension obligation	19,410,062
Net OPEB obligation	6,645,606
Total liabilities	31,448,475
DEFERRED INFLOWS OF RESOURCES	
Pension obligation	1,294,946
OPEB obligation	224,670
Total deferred inflows of resources	1,519,616
NET POSITION	
Invested in capital assets, net of related debt	11,955,139
Restricted for	
Capital Projects	59,969
Debt Service	224,672
Food Service	45,051
Unrestricted (deficit)	(23,437,912)
Total net position (deficit)	(11,153,081)
Total liabilities, deferred inflows of resources and net position	$ 21,815,010

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

Elk Rapids Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

Functions/Program	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Total Governmental Activities
Governmental activities					
Instruction	$ 7,662,062	$ 4,985	$ 411,834	$ -	$ (7,245,243)
Supporting Services	4,317,231	39,416	70,555	8,639	(4,198,621)
Community Services	24,849	-	4,685	-	(20,164)
Food Service	487,990	202,196	258,361	-	(27,433)
Athletics	280,559	113,224	44,328	13,675	(109,332)
Preschool and Kid's Club	297,481	273,188	26,370	-	2,077
Other	114,343	-	-	-	(114,343)
Interest on long-term debt	73,777	-	-	-	(73,777)
Depreciation - unallocated	1,154,561	-	-	-	(1,154,561)
Total governmental activities	$ 14,412,853	$ 633,009	$ 816,133	$ 22,314	(12,941,397)
General purpose revenues					
Property taxes					
Levied for general purposes					7,884,463
Levied for Debt Service					1,210,473
State school aid - unrestricted					3,247,076
Investment and other					585,069
Total general purpose revenues					12,927,081
Change in net position					(14,316)
Net position (deficit), beginning of year, *as restated*					(11,138,765)
Net position (deficit), end of year					$ (11,153,081)

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

Elk Rapids Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018

	General Fund	2016 Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 1,980,524	$ 1,246,867	$ 838,163	$ 4,065,554
Due from other governments	726,028	-	13,022	739,050
Accounts receivables	42,225	2,367	7,058	51,650
Due from other funds	42,635	-	441	43,076
Inventory	-	-	9,838	9,838
Deposits	6,190	-	-	6,190
Prepaid	25,297	-	-	25,297
Total assets	$ 2,822,899	$ 1,249,234	$ 868,522	$ 4,940,655
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenditures	$ 1,509,963	$ 53,954	$ 79,936	$ 1,643,853
Due from other governments	-	-	576	576
Unearned revenue	223,132	-	41,172	264,304
Due to other funds	441	713	41,922	43,076
Total liabilities	1,733,536	54,667	163,606	1,951,809
FUND BALANCES				
Non-spendable for inventory, prepaids and deposits	31,487	-	9,838	41,325
Restricted for debt retirement	-	-	233,978	233,978
Restricted for capital projects	-	1,194,567	348,502	1,543,069
Restricted for food service	-	-	35,213	35,213
Committed for subsequent year's expenditures	52,000	-	-	52,000
Assigned - reported in special revenue funds	-	-	77,385	77,385
Unassigned	1,005,876	-	-	1,005,876
Total fund balances	1,089,363	1,194,567	704,916	2,988,846
Total liabilities and fund balances	$ 2,822,899	$ 1,249,234	$ 868,522	

Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Position

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is $29,148,877 and the accumulated depreciation is $(15,843,576).			13,305,301
Deferred outflows of resources for pension obligation is not a financial resource and, therefore, is not reported as an asset in governmental funds.			
	Pension obligation	3,249,004	
	OPEB obligation	363,126	3,612,130
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:			
	Bonds payable	$ (2,795,000)	
	Unamortized bond premium	(38,262)	
	Accumulated leave liability	(641,506)	
	Accrued interest on bonds	(9,306)	
	Net pension obligation	(19,410,062)	
	Net OPEB obligation	(6,645,606)	(29,539,742)
Deferred inflow of resources for pension obligation is not a claim against a current financial resource and, therefore, is not reported as a liability in the governmental funds.			
	Pension obligation	(1,294,946)	
	OPEB obligation	(224,670)	(1,519,616)
Total net position (deficit) - governmental activities			$ (11,153,081)

Elk Rapids Schools

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2018

	General Fund	2016 Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	$ 7,884,463	$ -	$ 1,210,473	$ 9,094,936
Interest	40,897	24,061	21,544	86,502
State sources	3,556,777	-	90,249	3,647,026
Federal sources	285,363	-	213,210	498,573
Other	410,434	-	641,935	1,052,369
Total revenues	12,177,934	24,061	2,177,411	14,379,406
Expenditures				
Instruction	7,644,439	-	-	7,644,439
Supporting services	4,299,415	-	-	4,299,415
Community services	24,849	-	297,481	322,330
Food service	-	-	487,990	487,990
Athletics	-	-	269,635	269,635
Debt service				
Principal	-	-	1,125,000	1,125,000
Interest	-	-	76,190	76,190
Other	-	-	5,102	5,102
Capital outlay	41,281	1,263,888	264,716	1,569,885
Other	3,134	47,962	58,145	109,241
Total expenditures	12,013,118	1,311,850	2,584,259	15,909,227
REVENUES OVER (UNDER) EXPENDITURES	164,816	(1,287,789)	(406,848)	(1,529,821)
Other financing sources (uses)				
Operating transfers in	19,000	-	144,000	163,000
Operating transfers out	(144,000)	-	(19,000)	(163,000)
Total other financing sources (uses)	(125,000)	-	125,000	-
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	39,816	(1,287,789)	(281,848)	(1,529,821)
Fund balances, beginning of year	1,049,547	2,482,356	986,764	4,518,667
Fund balances, end of year	$ 1,089,363	$ 1,194,567	$ 704,916	$ 2,988,846

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

Elk Rapids Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

Total Net Change in Fund Balances - Governmental Funds			$ (1,529,821)
Amounts reported for governmental activities in the statement of activities are different because:			
Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capitalized outlays exceed depreciation expense in the period.			
	Capitalized outlays	$ 1,551,231	
	Depreciation expense	(1,154,561)	396,670
Change in deferred outflows of resources for:			
	Pension obligation	1,332,635	
	OPEB obligation	82,468	1,415,103
Repayment of bond and notes principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.			1,125,000
Amortization of bond premium			19,131
In the statement of activities, certain operating expenses (unused sick days) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time earned was less than the amounts used by $5,369.			5,369
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The lower interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds and notes payable.			2,413
Change in net pension obligation.			(556,696)
Change in net OPEB obligation.			364,036
Change in deferred inflows of resources for:			
	Pension obligation	(1,030,851)	
	OPEB obligation	(224,670)	(1,255,521)
Changes in Net Position of Governmental Activities			$ (14,316)

Elk Rapids Schools

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2018

	Private Purpose Trust Funds	Agency Funds Student Activities
ASSETS		
Cash and cash equivalents	$ 9,523	$ 241,049
LIABILITIES AND NET POSITION		
LIABILITIES		
Due to student groups	$ -	$ 241,049
NET POSITION		
Reserved for scholarships	3,854	-
Reserved for auditorium maintenance	1,138	-
Reserved for alumni activities	4,531	-
Total liabilities and net position	$ 9,523	$ 241,049

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

Elk Rapids Schools

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2018

	Private Private Trust Funds
Additions	
Private donations and interest	$ 130
Net position, beginning of year	9,393
Net position, end of year	$ 9,523

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Elk Rapids Schools (the "School District") is a Michigan public school district consisting of two elementary buildings, one middle school, one high school building and one alternative high school building. The School District primarily serves the Elk Rapids community. As of June 30, 2018, the School District employed 78 professional staff and 68 non-professional staff and had 1,308 students enrolled within its School District.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The School District is considered to be a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2018.

Financial Reporting Entity

Elk Rapids Schools' Board is a special purpose government and considered to be a primary government because it has a separately elected governing body, is legally separate and is fiscally independent of other State and local governments. The financial reporting entity of Elk Rapids Schools includes the School District as the primary government and its component units; i.e., legally separate organizations for which the primary government is financially accountable and any other organizations which management has determined, based on the nature and significance of their relationship with the School District, must be included to prevent the School District's financial statements from being misleading. Based on criteria established in Governmental Accounting Standards Board ("GASB") Statement No. 61, *The Financial Reporting Entity*, management has not identified any component units. Student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the School District are prepared in accordance with generally accepted accounting principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Fiduciary fund financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available, if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

Fund Types and Major Funds

Activities in Major Funds

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

The 2016 Capital Projects Fund is used to account for activity related to construction, equipping and furnishing additions to and remodeling, re-equipping and refurnishing School District buildings, including educational technology improvements.

Other Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Food Service Fund, the Athletics Fund and the Preschool and Kid's Club Fund.

The School District has two Debt Service Funds, which are used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

The School District has three non-major Capital Project Funds, which are used to account for financial resources to be used for general athletic infrastructure, Yuba School renovation projects, and erecting, furnishing and equipping restroom/concession buildings at the football field/track complex and at the high school soccer/baseball field; and preparing, developing and improving athletic fields and sites. The Athletic Complex and Yuba Capital Projects funds acquire resources from fundraising sources only. The 2017 Capital Projects Fund is funded by interest earnings.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net position and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Private Purpose Trust Funds account for contributions earmarked for scholarships available to qualifying students of the School District, the maintenance of a community auditorium and alumni activities.

Cash and Cash Equivalents

The School District's reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less, when purchased, to be cash equivalents.

Investments

Investments are stated at market value.

Inventories

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost, which is recorded as an expenditure at the time individual inventory items are used.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 5 to 50 years. The School District generally capitalizes assets with costs of $5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	25-50	years
Vehicles	10-12	years
Furniture and equipment	5-20	years

Long-term Debt and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as a liability. Bond discounts and premiums are deferred and amortized over the life of the bonds. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the period in which the bonds were issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors or contributors, or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the School District Board through approval of resolutions. Assigned fund balances is a limitation imposed by a designee of the School District Board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed or assigned to those purposes.

Spending Policy

When both restricted and unrestricted fund balances are available for use, it is the School District's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts, when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Title I, At-Risk and School Lunch Program, which are reported as operating grants and contributions.

Encumbrance Accounting

The School District formally records encumbrances in the accounting records during the year as a normal practice. In accordance with generally accepted accounting principles, outstanding encumbrances at year-end for which goods or services are received are reclassified as expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either canceled or are included as reappropriations of fund balance for the subsequent year.

Allocation of Expenses

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

Pension Plan

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 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.

Post-Employment 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.

Use of Estimates in the Preparation of Financial Statements

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

NOTE B - ACCOUNTING CHANGES

In June 2015, the Governmental Accounting Standards Board issued Statement No. 75 (“GASB 75”), *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*, an amendment of GASB Statement No. 45. GASB 75 improves accounting and financial reporting by state and local governments for post-employment benefits other than pensions. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB 75 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity and creating additional transparency.

GASB 75 requires employers to report net OPEB benefits as a liability in the statement of net position. GASB 75 requires immediate recognition of the OPEB expense, including annual service cost and interest, and the effect of changes in benefit terms on the net OPEB liability. Cost-sharing employers are required to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. GASB 75 also requires expanded note disclosures and required supplementary information covering the past 10 years for the net OPEB liability.

The School District implemented GASB 75 during the year by retroactive restatement of June 30, 2017 net position, as follows:

Net position at June 30, 2017, *as originally stated*	$ (4,409,781)
Record net OPEB liability at June 30, 2017	(6,728,984)
Net position at June 30, 2017, *as restated*	$(11,138,765)

NOTE C - BUDGETARY POLICY AND PRACTICE

The School District has adopted these procedures in establishing the budgets as reflected in the financial statements.

1. As early as possible in the preceding fiscal year (generally in the spring), the Superintendent formulates preliminary budgets for the coming year, which he submits to the Board of Education for their review.
2. A public hearing is held prior to June 30 on the proposed budgets to obtain taxpayer comments.
3. The Board of Education reviews the proposed budget and then in June adopts a formal resolution approving the needed appropriations for the coming operating year.
4. All transfers of budget amounts and any amendments to the formal Appropriation Act are approved by the Board of Education.
5. It is the Superintendent's responsibility to supervise and monitor the budget process. He does this by reviewing the monthly financial data and reporting and recommending any needed amendments to the Board of Education.
6. The budget is adopted on a basis consistent with generally accepted accounting principles.
7. The budgets presented in these financial statements are as originally adopted and as formally amended by the Board of Education.
8. All annual appropriations lapse at fiscal year-end.

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2018, the School District was out of compliance with the Act as follows:

	Budget	Actual	Variance	%
General Fund				
Supporting services	$ 4,309,318	$ 4,339,326	$ 30,008	0.7 %

NOTE D - CASH AND EQUIVALENTS

At June 30, 2018, the School District's cash and cash equivalent investments include the following:

	Total
Cash on hand	$ 771
Bank deposits	952,347
Investments	3,363,008
	$ 4,316,126

Bank Deposits

	Carrying Value	Uncollateralized Bank Balances Insured	Uncollateralized Bank Balances Uninsured	Uncollateralized Bank Balances Total
Bank deposits	$ 952,347	$ 960,554	$ -	$ 960,554

Custodial Credit Risk - Deposits

In the event of a bank failure, the School District's bank uninsured deposits may not be returned to it. As of June 30, 2018, $960,554 of the School District's deposits were FDIC and NCUA insured.

Investments

The School District's investment policy permits investments in the following vehicles:

1. Bonds, bills or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States or the State of Michigan.

2. Certificates of deposit issued by financial institutions organized and authorized to operate in Michigan.

3. Commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase.

4. Securities issued or guaranteed by agencies or instrumentalities of the United States government or Federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the Federal deposit insurance corporation.

5. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.

6. Michigan Investment Liquid Asset Fund Plus ("MILAF").

Investments at June 30, 2018 consisted of the following:

Investment Type	Fair Value	Investment Maturities (in years) Current	1-5	6-10	More than 10
MILAF	$ 3,363,008	$ 3,363,008	$ -	$ -	$ -

Interest Rate Risk

In accordance with the School District's investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities or MILAF and limiting the average maturity in accordance with the School District's cash requirements. MILAF investments are carried at amortized cost and are not subject to any withdrawal restrictions.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The School District's investment policy further limits its investment choices as described above. The School District's investment in the MILAF investment pool was rated AAAm by Standard & Poor's.

NOTE E - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE

Property Taxes Receivable, Unearned Revenue and Property Tax Calendar

Property taxes are levied, billed and attached as enforceable liens in July and December of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred inflows of resources. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, $18 per $1,000 of equalized non-principal residence property value of $435.9 million and $6 per $1,000 of equalized commercial personal property value of $3.8 million was levied for general operating purposes. For debt service purposes, $1.26 per $1,000 of equalized principal, non-principal residence property and commercial property value of $960.9 million was levied for bonded debt repayments by the Debt Service Fund.

Intergovernmental Receivables and Unearned Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues are deferred in the governmental fund financial statements and are included in unearned revenue.

Amounts due from other governments at June 30, 2018 are as follows:

Due from the Federal Government	
Federal revenue	$ 72,676
Due from the State of Michigan	
State Aid	656,973
Other	9,401
	$ 739,050

NOTE F - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Buildings	$ 5,004,949	$ 5,924	$ (35,198)	$ 4,975,675
Building improvements	16,312,436	710,403	489,245	17,512,084
Machinery and equipment	2,966,972	219,224	(195,523)	2,990,673
Software	17,882	-	-	17,882
Furniture and fixtures	1,414,749	67,179	-	1,481,928
Vehicles	1,426,524	170,512	-	1,597,036
Construction in progress	590,606	377,989	(489,245)	479,350
Total depreciable assets	27,734,118	1,551,231	(230,721)	29,054,628
Less accumulated depreciation	(14,919,736)	(1,154,561)	230,721	(15,843,576)
Land	94,249	-	-	94,249
Total capital assets, net	$ 12,908,631	$ 396,670	$ -	$ 13,305,301

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	$ 1,154,561

NOTE G - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2018 were as follows:

	Beginning Balance	New Debt	Payments	Ending Balance	Current Portion
General obligation bonds	$ 3,920,000	$ -	$(1,125,000)	$ 2,795,000	$ 1,185,000
Unamortized bond premium	57,393	-	(19,131)	38,262	19,131
Accumulated leave liability	646,875	-	(5,369)	641,506	14,372
Total long-term debt	$ 4,624,268	$ -	$(1,149,500)	$ 3,474,768	$ 1,218,503

Payments on general obligation bonds are made by the Debt Service Fund. The accumulated leave liability will be liquidated primarily by the General Fund.

At June 30, 2018, the School District's long-term debt consisted of the following:

2016 School Improvement Bonds; due in annual installments of $1,095,000 to $1,125,000 through May 2020; interest rate of 2.00%.	$ 2,220,000
2017 School Improvement Bonds; due in annual installments of $90,000 to $100,000 through May 2024; interest rate of 1.50%-2.45%.	575,000
Total general obligation bonds	2,795,000
Unamortized bond premium	38,262
Accumulated leave liability	641,506
Total long-term debt	$ 3,474,768

Total annual requirements to amortize general obligation bonds outstanding as of June 30, 2018, are as follows:

Years Ending June 30,	Principal	Interest
2019	$ 1,185,000	$ 55,838
2020	1,215,000	32,588
2021	95,000	8,558
2022	100,000	6,800
2023	100,000	4,700
2024	100,000	2,450
	$ 2,795,000	$ 110,934

Interest expense for the year ended June 30, 2018 was $73,777, and interest paid for the year ended June 30, 2018 was $76,190.

Accumulated Leave Liability

Employees of the School District accumulate earned but unused compensated sick leave days, as specified by the bargaining units' contract. 50% of sick leave is accrued when incurred for non-teachers and 40% for teachers. Upon either resignation or retirement, the employees are compensated at daily rates specified in the bargaining units' contracts.

NOTE H - OPERATING LEASES

The School District leases copiers which qualify as operating leases under generally accepted accounting principles. Net rental expense on operating leases for the year ended June 30, 2018, was $20,133.

The following is a schedule of annual future minimum lease payments required as of June 30, 2018.

Years Ending June 30,	Amount
2019	$ 20,133
2020	15,100
	$ 35,233

NOTE I - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

The School District pays unemployment claims on a reimbursement basis through the Bureau of Workers and Unemployment Compensation ("BWUC"). As BWUC pays eligible recipient benefits, this amount is billed to the School District. At June 30, 2018 there were no significant claims known to exist.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review, and processing services for all member governments pursuant to its charter.

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the School District's General Fund.

NOTE J - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Receivables and Payables

Outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

Fund	Interfund Receivable	Interfund Payable
Major Governmental Funds		
General Fund	$ 42,635	$ 441
2016 Capital Projects Fund	-	713
Other Non-Major Governmental Funds		
Food Service Fund	-	23,804
Athletics Fund	-	16,087
Preschool and Kid's Club Fund	-	2,031
2017 School Improvement Bond Fund	35	-
2016 School Improvement Bond Fund	406	-
	$ 43,076	$ 43,076

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

The following schedule reports transfers and payments within the reporting entity:

	Transfers in	Transfers out
Major Governmental Funds		
General Fund	$ 19,000	$ 144,000
Other Non-Major Governmental Funds		
Food Service Fund	32,000	-
Athletics Fund	112,000	-
Preschool and Kid's Club Fund	-	19,000
	$ 163,000	$ 163,000

NOTE K - PENSION PLAN

Plan Description

The Michigan Public School Employees' Retirement System ("MPSERS") is a cost-sharing, multiple employer, State-wide, defined benefit public employee retirement plan governed by the State of Michigan ("State") originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the Board's authority to promulgate or amend the provisions of the System. 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 and Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available at www.michigan.gov/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% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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.

Regular Retirement

The retirement benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation ("FAC"). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period.

There is no mandatory retirement age.

Funding Policy

Defined Contribution Plan

Employer contributions to the Plan are dependent on the plan elected by the participant.

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 September 30, 2017 will be amortized over a 20 year period for the 2017 fiscal year.

The schedule below summarizes pension contribution rates in effect for the Plan's fiscal year September 30, 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 $1,756,829 for the year ended September 30, 2017.

The School District's contributions to the MPSERS Defined Contribution Plan were $28,140, for the year ended June 30, 2018, which is equal to the pension expense recognized by the School District for the year.

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 $19,410,062 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 30, 2016. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the systems employers during the measurement period by the percent of pension contributions required from all applicable employees during the measurement period. At September 30, 2017, the School District's proportion was 0.07490101%, which was a decrease of 0.00066596% from its proportion measured as of September 30, 2016.

For the year ended June 30, 2018, the School District recognized pension expense of $1,970,989. 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
Differences between expected and actual experience	$ 168,687	$ 95,241
Changes of assumptions	2,126,526	-
Net difference between projected and actual earnings on pension plan investments	-	927,929
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	131,889	271,776
School District contributions subsequent to the measurement date	821,902	-
Total	$ 3,249,004	$ 1,294,946

From the above table, $821,902 reported as deferred outflows of resources related to pensions resulting from School District 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 as follows:

Year Ended September 30,	Amount
2018	$ 282,714
2019	627,483
2020	281,462
2021	(59,503)
Total	$ 1,132,156

Actuarial Assumptions

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

Additional information as of the latest actual valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2017
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.

Notes:

- 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 for non-university employers.
- Recognition period for assets is 5 years.
- 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 Rate of Return on Investments

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:

Investment Category	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 Pools	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Real Return, Opportunistic and Absolute Pools	15.5	5.0
Short-Term Investment Pools	2.0	(0.9)
	100.0 %	

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

Rate of Return

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

Discount Rate

A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. 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 point 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%)
$ 25,284,854	$ 19,410,062	$ 14,463,860

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 Comprehensive Annual Financial Report ("CAFR"). The 2015 MPSERS CAFR is available at: www.michigan.gov/mpsers-cafr.

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

The School District reported $192,677 and $0 payable to the plan at June 30, 2018 for legally required defined benefit and defined contribution plan contributions, respectively.

NOTE L - POST-EMPLOYMENT 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 post-employment 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 Post-Employment 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.

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

Required contributions to the OPEB plan from the School District were $584,258 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 $6,645,606 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 30, 2016. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the systems 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 0.07504520%, which equaled its proportion measured as of October 1, 2016.

For the year ended June 30, 2018, the School District recognized OPEB expense of $444,907. 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
Differences between expected and actual experience	$ -	$ 70,756
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	153,914
Changes in proportion and differences between School District contributions and proportionate share of contributions	1,788	-
School District contributions subsequent to the measurement date	361,338	-
Total	$ 363,126	$ 224,670

From the above table, $361,338 contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB 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:

Year Ended September 30,	Amount
2018	$ (53,893)
2019	(53,893)
2020	(53,893)
2021	(53,893)
2022	(7,310)
Total	$ (222,882)

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

Notes:

- 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 for non-university employers.
- Recognition period for assets in years is 5.0.
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/orsschools).

Long-Term Expected Rate of Return on Investments

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:

Investment Category	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 rate of return does not include 2.3% inflation.*

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on 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-point higher:

1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
$ 7,783,925	$ 6,645,606	$ 5,679,529

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

The following presents School District's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what 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 Discount Rate (7.5%)	1% Increase (8.5%)
$ 5,627,935	$ 6,645,606	$ 7,801,100

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

The School District reported $57,394 payable to the Plan at June 30, 2018 for the OPEB liability.

NOTE M - COMMITMENTS AND CONTINGENCIES

School Improvement Commitment

The School District began work on a 2016 school improvement capital project during the year ended June 30, 2016. The School District has committed to a total project cost of approximately $4,465,000. Of this amount, the School District issued bonds in the amount of $4,300,000, plus an underwriter's discount of approximately $19,000. Approximately $55,000 will be received in the form of interest income. The remaining balance attained resulted from approximately $91,000 received from a Michigan Energy Office Grant and utility rebates associated with an energy efficiency project. As of June 30, 2018, $3,263,938 has been expended to date, leaving a remaining capital acquisition commitment of approximately $1,200,000. The 2016 Capital Projects Fund balance was $1,194,567 at June 30, 2018.

The School District began work on a 2017 school improvement capital project during the year ended June 30, 2017. The School District has committed to a total project cost of approximately $660,000. Of this amount, the School District issued bonds in the amount $650,000. The remaining balance of approximately $10,000 will be received in the form of interest income. As of June 30, 2018, $312,472 has been expended to date, leaving a remaining capital acquisition commitment of approximately $347,000. The 2017 Capital Projects Fund balance was $346,215 at June 30, 2018.

Federal and State Grants

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Elk Rapids Education Association. The Board of Education and the Elk Rapids Education Association have a contract for the period September 1, 2017 through August 31, 2018. A new contract was ratified for the period of September 1, 2018 through August 31, 2019.

The support personnel at the School District are organized under the Elk Rapids Educational Support Personnel Association. The Board of Education and the Elk Rapids Educational Support Personnel Association have a contract for the period July 1, 2018 through June 30, 2020.

The transportation personnel at the School District are organized under the Elk Rapids Schools Transportation Association. The Board of Education and the Elk Rapids Schools Transportation Association have a contract for September 1, 2016 through August 31, 2018. A new contract was ratified for the period of September 1, 2018 through August 31, 2020.

REQUIRED SUPPLEMENTARY INFORMATION

Elk Rapids Schools

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variances - Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final Budget	Final Budget To Actual
Revenues					
Local and intermediate sources	$ 8,208,169	$ 7,982,268	$ 8,005,905	$ (225,901)	$ 23,637
State revenues	3,273,821	3,520,504	3,556,777	246,683	36,273
Federal revenues	239,832	296,561	285,363	56,729	(11,198)
Other	241,178	324,667	329,889	83,489	5,222
Total revenues	11,963,000	12,124,000	12,177,934	161,000	53,934
Expenditures					
Current					
Instruction	7,573,098	7,654,449	7,645,809	(81,351)	8,640
Supporting services	4,248,403	4,309,318	4,339,326	(60,915)	(30,008)
Other	30,499	28,233	27,983	2,266	250
Total expenditures	11,852,000	11,992,000	12,013,118	(140,000)	(21,118)
EXCESS OF REVENUES OVER EXPENDITURES	111,000	132,000	164,816	21,000	32,816
Other financing sources (uses)					
Operating transfers in	19,000	19,000	19,000	-	-
Operating transfers out	(130,000)	(147,000)	(144,000)	(17,000)	3,000
Total other financing sources (uses)	(111,000)	(128,000)	(125,000)	(17,000)	3,000
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	-	4,000	39,816	4,000	35,816
Fund balance, beginning of year	1,035,418	1,049,547	1,049,547	14,129	-
Fund balance, end of year	$ 1,035,418	$ 1,053,547	$ 1,089,363	$ 18,129	$ 35,816

Elk Rapids Schools

SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Michigan Public School Employees Retirement Plan

	9/30/2017	9/30/2016	9/30/2015	9/30/2014
School District's proportion of collective net pension liability	0.07490101 %	0.07556707 %	0.07459000 %	0.07586000 %
School District's proportionate share of net pension liability	$ 19,410,062	$ 18,853,366	$ 18,219,260	$ 16,709,766
School District's covered-employee payroll	6,229,831	6,407,985	6,397,542	6,464,270
School District's proportionate share of net pension liability as a percentage of covered-employee payroll	311.57 %	294.22 %	284.79 %	258.49 %
Plan fiduciary net position as a percentage of total pension liability	64.21 %	63.27 %	63.17 %	66.20 %

SCHEDULE OF SCHOOL DISTRICT'S DEFINED BENEFIT PENSION CONTRIBUTIONS

Michigan Public School Employees Retirement Plan

	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Statutorily required employer contributions	$ 1,100,573	$ 1,169,000	$ 1,211,419	$ 1,377,283
School District contributions made to the Plan	1,100,573	1,169,000	1,211,419	1,377,283
Contributions deficiency (excess)	$ -	$ -	$ -	$ -
School District's covered-employee payroll	$ 6,200,615	$ 6,223,732	$ 6,185,204	$ 6,286,625
Contributions as a percentage of covered-employee payroll	17.75 %	18.78 %	19.59 %	21.91 %

Change of benefit terms: There were no changes of benefit terms in 2017.

Change of assumptions: There were no changes of benefit assumptions in 2017.

Elk Rapids Schools

SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

Michigan Public School Employees Retirement Plan

	9/30/2017
School District's proportion of collective net OPEB liability	0.07504520 %
School District's proportionate share of net OPEB liability	$ 6,645,606
School District's covered-employee payroll (OPEB)	6,229,831
School District's proportionate share of net OPEB liability as a percentage of covered-employee payroll	106.67 %
Plan fiduciary net position as a percentage of total OPEB liability	36.39 %

SCHEDULE OF SCHOOL DISTRICT'S OPEB CONTRIBUTIONS

Michigan Public School Employees Retirement Plan

	6/30/2018
Statutorily required OPEB contributions	$ 448,756
OPEB contributions in relation to statutorily required contributions	448,756
Contributions deficiency (excess)	$ -
School District's covered-employee payroll (OPEB)	$ 6,200,615
OPEB contributions as a percentage of covered-employee payroll	7.24 %

Change of benefit terms: There were no changes of benefit terms in 2017.

Change of assumptions: There were no changes of benefit assumptions in 2017.

COMBINING FINANCIAL STATEMENTS OF NON-MAJOR GOVERNMENTAL FUNDS

Elk Rapids Schools

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2018

	Special Revenue			Debt Service		Capital Projects			Total
	Food Service Fund	Athletics Fund	Preschool and Kid's Club Fund	2017 School Improvement Bond Fund	2016 School Improvement Bond Fund	Athletic Complex Fund	Yuba Capital Projects Fund	2017 Capital Projects Fund	Non-Major Governmental Funds
ASSETS									
Cash and cash equivalents	$ 43,666	$ 52,500	$ 98,236	$ 10,573	$ 223,540	$ 5,855	$ 124	$ 403,669	$ 838,163
Due from other governments	13,022	-	-	-	-	-	-	-	13,022
Accounts receivables	5,134	-	-	-	-	1,924	-	-	7,058
Due from other funds	-	-	-	35	406	-	-	-	441
Inventory	9,838	-	-	-	-	-	-	-	9,838
Total assets	$ 71,660	$ 52,500	$ 98,236	$ 10,608	$ 223,946	$ 7,779	$ 124	$ 403,669	$ 868,522
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Accounts payable and accrued expenditures	$ 2,805	$ 2,653	$ 14,908	$ -	$ -	$ 2,116	$ -	$ 57,454	$ 79,936
Due to other governments	-	-	-	49	527	-	-	-	576
Unearned revenue	-	27,611	10,061	-	-	3,500	-	-	41,172
Due to other funds	23,804	16,087	2,031	-	-	-	-	-	41,922
Total liabilities	26,609	46,351	27,000	49	527	5,616	-	57,454	163,606
FUND BALANCES									
Nonspendable	9,838	-	-	-	-	-	-	-	9,838
Restricted for Debt Service	-	-	-	10,559	223,419	-	-	-	233,978
Restricted for Capital Projects	-	-	-	-	-	2,163	124	346,215	348,502
Restricted for Food Service	35,213	-	-	-	-	-	-	-	35,213
Assigned for fund use	-	6,149	71,236	-	-	-	-	-	77,385
Total fund balances	45,051	6,149	71,236	10,559	223,419	2,163	124	346,215	704,916
Total liabilities and fund balances	$ 71,660	$ 52,500	$ 98,236	$ 10,608	$ 223,946	$ 7,779	$ 124	$ 403,669	$ 868,522

Elk Rapids Schools

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2018

	Special Revenue			Debt Service		Capital Projects			Total
	Food Service Fund	Athletics Fund	Preschool and Kid's Club Fund	2017 School Improvement Bond Fund	2016 School Improvement Bond Fund	Athletic Complex Fund	Yuba Capital Projects Fund	2017 Capital Projects Fund	Non-Major Governmental Funds
Revenues									
Property taxes	$ -	$ -	$ -	$ 96,068	$ 1,114,405	$ -	$ -	$ -	$ 1,210,473
Interest	334	135	1,434	650	10,198	310	2	8,481	21,544
State sources	45,151	18,728	26,370	-	-	-	-	-	90,249
Federal sources	213,210	-	-	-	-	-	-	-	213,210
Other	202,196	138,825	273,188	379	5,034	13,674	8,639	-	641,935
Total revenues	460,891	157,688	300,992	97,097	1,129,637	13,984	8,641	8,481	2,177,411
Expenditures									
Food service	487,990	-	-	-	-	-	-	-	487,990
Athletics	-	269,635	-	-	-	-	-	-	269,635
Preschool and Kid's Club	-	-	297,481	-	-	-	-	-	297,481
Debt service									
Principal	-	-	-	75,000	1,050,000	-	-	-	1,125,000
Interest	-	-	-	10,790	65,400	-	-	-	76,190
Other	-	-	-	748	4,354	-	-	-	5,102
Capital outlay	-	-	-	-	-	10,925	8,639	245,152	264,716
Other	-	-	-	-	-	7,750	-	50,395	58,145
Total expenditures	487,990	269,635	297,481	86,538	1,119,754	18,675	8,639	295,547	2,584,259
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(27,099)	(111,947)	3,511	10,559	9,883	(4,691)	2	(287,066)	(406,848)
Other financing sources (uses)									
Operating transfers in	32,000	112,000	-	-	-	-	-	-	144,000
Operating transfers out	-	-	(19,000)	-	-	-	-	-	(19,000)
Total other financing sources (uses)	32,000	112,000	(19,000)	-	-	-	-	-	125,000
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	4,901	53	(15,489)	10,559	9,883	(4,691)	2	(287,066)	(281,848)
Fund balance, beginning of year	40,150	6,096	86,725	-	213,536	6,854	122	633,281	986,764
Fund balance, end of year	$ 45,051	$ 6,149	$ 71,236	$ 10,559	$ 223,419	$ 2,163	$ 124	$ 346,215	$ 704,916

DENNIS, GARTLAND & NIERGARTH

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

Board of Education
Elk Rapids Schools

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 ***Elk Rapids Schools*** (the "School District") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 11, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficienc*y 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 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. However, as described below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness:

Criteria: Adequate segregation of duties for the School District is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

Condition: The School District has not achieved a complete segregation of duties among employees who have both access to assets and accounting responsibilities.

Cause: The small size of the business office staff creates an inherent lack of segregation of duties.

Effect: As a result of this condition, the School District lacks proper segregation of duties and is exposed to an increased risk of misstatement of its financial statements.

Management's Response: The School District has evaluated the manner in which they segregate duties and has implemented certain measures. However, the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

Compliance and Other Matters

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

Purpose of this Report

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

Dennis, Gartland & Niergarth

October 11, 2018